

Entrepreneurial strategies and trust: structure and evolution of entrepreneurial behavioural patterns in "low trust" and "high trust" environments of East and West Europe. Part 2, East and West Germany

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Entrepreneurial Strategies and Trust

**Structure and Evolution of Entrepreneurial Behavioural Patterns in “Low Trust”
and “High Trust” Environments of East and West Europe**

Part 2: East and West Germany

Hans-Hermann Höhmann and Friederike Welter (editors)

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Preface

The following paper presents results from the empirical research carried out in Germany within our international project titled “Entrepreneurial strategies and trust: Structure and evolution of entrepreneurial behavioural patterns in East and West European environments” (2001–2003). The project concentrates on the microeconomic level, studying owner-managers and key decision makers in small businesses with up to 50 employees in food industry, business services and trade. Small businesses reflect the impact of domestic environments better than the often internationalised medium and large enterprises. The empirical research in Germany consists of two major elements: a standardised survey and case studies of small businesses in West and East Germany.

The project includes two East European and three West European countries. Russia and Estonia represent a problematic and a successful transformation process, respectively. Germany, Italy and Great Britain represent different models of West European capitalism, and different trust cultures. The research has been conducted by an international team. Prof. Hans-Hermann Höhmann, Research Centre for East European Studies at the University of Bremen and PD Dr Friederike Welter, Rhine-Westphalia Institute for Economic Research (RWI) in Essen, Germany are the project co-ordinators, team members are Elena Malieva, Teemu Kautonen and Dr. Bernd Lageman. The Russian Independent Institute for Social and Nationalities Problems (RIISNP), represented by Dr Alexander Chepureenko, is the Russian project partner. In Estonia, the research is performed by Prof Urve Venesaar from the Institute of Economics at the Tallinn Technical University. The studies in Italy and Great Britain are conducted by Prof Gabi Dei Ottati, University of Florence and Prof David Smallbone and Fergus Lyon, Centre for Enterprise and Economic Development Research (CEEDR) at the Middlesex University Business School.

We gratefully acknowledge support by the Volkswagen Foundation, which funded this research within its programme “Unity amidst variety? Intellectual foundations and requirements for an enlarged Europe”.

Country Report: East and West Germany

This report describes and analyses the German results of the international research project 'Entrepreneurial Strategies and Trust in Eastern and Western Europe', which was funded by the Volkswagen Foundation 2001 – 2003. The aim of the project was to study the role of trust in entrepreneurial behaviour in different socio-economic environments following the 'embeddedness' discussion (e.g. Granovetter, 1985; Zukin and DiMaggio, 1990; Halinen and Törnroos, 1998). By focusing on the embeddedness of economic activity, the specifics of small businesses and the regional development perspective, while using a survey and case-study based approach, the study makes a unique contribution to the current status of (empirical) trust research.

The conceptual tool developed for the analysis of the empirical results concerning different trust environments comprises three forms of trust. *Personal trust* builds on initial knowledge about the partner, which may stem from the characteristics of a group such as an ethnic group or kinship, but it particularly occurs in bilateral (business) relationships where persons have come to know each other through repeated interaction. *Collective trust* could be based on the initial knowledge of a person, but it also refers to group behaviour in a wider sense, including reputations as well as shared norms and mutual business conventions, which differ across sectors or business groups. However, the borders between personal and collective trust are blurred and it is not (always) easy to distinguish between them. *Institutional trust* is based on formal institutions such as political, economic and juridical rules and organisations, as well as informal institutions, including values, norms and codes of conduct that are deeply embedded in culture (North, 1990). Contrary to collective norms and values, the institutional ones apply across different sectors and business groups. Institutional trust allows for the use of 'anonymous' sources in business relationships (such as new partners, or consultants for business assistance), because there are legal safeguards and sanctions in case the relationship fails.

The German empirical study consists of a survey of 197 enterprises and 16 case studies. The survey was conducted as a telephone survey (CATI) in spring 2002, whilst the case studies were carried out as personal in-depth interviews in winter 2002/2003. Since the primary aim of the study was to examine entrepreneurial behaviour in different trust milieus, the survey is not representative of the SME population as a whole. Instead, it focuses on investigating the influence of three key variables on trust: region, size and sector. The main purpose of the case studies was to illustrate, deepen and question the conclusions drawn from the survey results with respect to these three variables.

The *regions* consisted of the Ruhr Area in West Germany and Greater Dresden in Saxony, East Germany. The regions were selected in order to enable an analysis of West-East differences, particularly with respect to the East German economic transition on the one hand, and different regional aspects concerning trust building on the other. The Ruhr Area is a former steel and coal mining region, which has been undergoing enormous restructuring since the late 1980s, while Greater Dresden exemplifies a region affected by societal, political and economic structural change. The *sectors* covered in the study were food industry, trade and business services. These were selected in particular to reflect sectoral variations in the types of external relations small firms have, for example, with customers and suppliers, sources of assistance and advice, authorities, Chambers of Commerce and business associations. Moreover, two *enterprise sizes* were included in the study: micro firms with up to 10 employees and small enterprises with 10–49 employees. In particular, this distinction appeared interesting in two respects. Firstly, micro firms were assumed to be more locally bound, and thus to reflect the local conditions even better than small firms. Secondly, trust was assumed to play a more important role for micro enterprises, due to their comparatively lesser resources and their, in general, more informal character (Lyons, 1994; Schumacher and Moyle, 2002).

The report consists basically of three parts. In the first one, the survey results are presented and analysed. In particular, the role of trust is examined in different areas of entrepreneurial activity, including customer and supplier relations, credit relationships, co-operation, intra-firm relationships and relations to the social and institutional environment. The most important points and conclusions are illustrated and elaborated through the case-study findings in the second part, while the third part concludes with a synthesis of the results and provides proposals for further research.

Survey Report

Profile of the Surveyed Enterprises

The *total sample of 197 enterprises* is almost equally divided between East and West Germany. The West German sample is entirely from the Ruhr Area, while the East German sample stems from the Greater Dresden area in Saxony (80 % of the East German sample) and the Länder Thuringia (15 %) and Saxony-Anhalt (5 %). In terms of size, there are more small businesses (60 %) than micro firms (40 %). The West German sample is relatively evenly distributed in terms of size, while there is a bias in the East German sample towards small enterprises, which represent 66 % of the sample.

In terms of sectors, business services appeared with the highest frequency (41 %), followed by the food industry (34 %) and trade (26 %). Firms in the food industry and trade are more often West German, while the bias in the business services sample is towards East Germany. The food industry sample is strongly characterised by small businesses, whereas the other two sectoral samples contain a more equal number of both micro and small firms. Approximately half of the food industry sample consists of bakeries and butcher's shops. The rest is more diverse, varying from production of meat, fish or beverages (some 15–20 % of the sectoral sample) to trade with diverse food products. The trade sample as a whole is very versatile, the firms being engaged in trade, for example, of used cars, hearing aids, furniture, vegetables and fruit, flowers, building materials, software, and so forth. There is no specific type of trade that was disproportionately present in the sample. In the business services sample, there is one group that stands out particularly: Companies in architecture, building and other engineering services, which make about one fourth of the whole sample. Other notable groups are (tax) accounting services, other consulting services, solicitors, software development and graphics design, as well as advertising services.

New enterprises form only a small minority of the total sample. This partly reflects the declining number of start-ups since 1999, which is mainly a result of the unfavourable economic situation in Germany (Mittelstandsmonitor, 2003). Therefore, the *age of enterprise* plays only a minor role as a variable in the German survey analysis. The majority of the interviewed firms were founded in the early 1990s. Not surprisingly, this is particularly true of the companies in the East German sample, of which 62 % were established within a few years after unification. The majority of the West German firms are older, 40 % of them having been founded between 1946 and 1979. Interestingly, 27 % of East German businesses had been founded before 1990, almost all of them in the food industry or trade. This appears to be a relatively high share, given that almost half of the 185,000 'old entrepreneurs' who ran businesses in the socialist era went bankrupt within two years after the unification (Koch and Thomas, 1997).

Approximately two thirds of all sample firms were founded as a start-up, while another 30 % were bought. There is a particularly high share of bought firms in the food sector. The number of privatised and restructured enterprises is negligible.

The majority of the sample companies do not have *partners*. Of those who do, the most common contributions by the partners are in management and providing capital. East German firms

in all sectors more often have partners than West German ones. This might be related to the fact that a high share of the East German firms were founded shortly after the unification, for back then contacts to one's family, friends and colleagues played a more important role in business life than they do now (Koch and Thomas, 1997; Nuissl et al., 2002). Perhaps some of these contacts ended up as partnerships. There are examples of such arrangements in our case studies (e.g. case #4). Furthermore, companies in the food industry clearly have partners less often than ones in the other sectors. Not surprisingly, small businesses more often have partners than micro firms. *Trust* appears to be valued highly in the relationships with partners: 98 % of the respondents with partners in the firm rated trust either as important or very important.

Table 1: Distribution of the sample in terms of region, size, sector and age, %

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Regions									
West Germany	-	-	59.5	46.6	57.6	54.9	45.0	51.8	102
East Germany	-	-	40.5	53.4	42.4	45.1	55.0	48.2	95
Total number (n)	-	-	79	118	66	51	80		197
Size									
Micro business	46.1	33.7	-	-	27.3	52.9	42.5	40.1	79
Small business	53.9	66.3	-	-	72.7	47.1	57.5	59.9	118
Total number (n)	102	95	-	-	66	51	80		197
Sectors									
Food industry	37.3	29.5	22.8	40.7	-	-	-	33.5	66
Trade	27.5	24.2	34.2	20.3	-	-	-	25.9	51
Business services	35.3	46.3	43.0	39.0	-	-	-	40.6	80
Total number (n)	102	95	79	118	-	-	-		197
Age ¹									
Up to 1 year	0.0	3.2	1.3	1.7	1.5	2.0	1.3	1.5	3
1 – 2,5 years	3.9	0.0	1.3	2.5	1.5	2.0	2.5	2.0	4
2,5 – 5,5 yrs (1995-1999)	7.8	7.4	8.9	6.8	12.1	3.9	6.3	7.6	15
5,5 – 12 yrs (1990-1994)	17.6	62.1	34.2	42.4	22.7	31.4	57.5	39.1	77
13 – 22 yrs (1980-1989)	20.6	10.5	17.7	14.4	16.7	19.6	12.5	15.7	31
23 – 56 yrs (1946-1979)	40.2	4.2	30.4	17.8	22.7	27.5	20.0	22.8	45
57 yrs or older (pre 1945)	8.8	12.6	6.3	13.6	21.2	13.7	0.0	10.7	21
Total number (n)	102	95	79	118	66	51	80		197

Own survey. – 1 as of June 2002; one West German small business in the food sector did not know (included in n).

Table 2: Status at start, %

When starting, was the enterprise...	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
...a start-up	60.8	69.5	74.7	58.5	45.5	70.6	77.5	65.0	128
...bought	36.3	23.2	25.3	33.1	48.5	27.5	16.3	29.9	59
...privatised	1.0	2.1	0.0	2.5	3.0	2.0	0.0	1.5	3
...restructured from another enterprise	2.0	5.3	0.0	5.9	3.0	0.0	6.3	3.6	7
Total number (n)	102	95	79	118	66	51	80		197

Own survey.

Table 3: The role of and trust in business partners, %

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Business partners ¹									
Yes	31.0	46.8	23.1	49.1	21.9	48.0	46.2	38.7	75
No	68.0	53.2	76.9	50.0	78.1	52.0	52.5	60.8	118
Total number (n)	100	94	78	116	64	50	80		194
Role of business partners ²									
Capital	43.8	52.3	33.3	53.4	42.9	45.8	52.6	48.7	37
Know-how	25.0	20.5	16.7	24.1	28.6	16.7	23.7	37.0	17
Technology	15.6	4.5	11.1	8.6	14.3	8.3	7.9	15.2	7
Management	59.4	54.5	55.6	56.9	57.1	54.2	57.9	56.6	43
Other	12.5	11.4	16.7	10.3	7.1	16.7	10.5	11.8	9
Total number (n)	32	44	18	58	14	24	38		76
Trust in business partners ²									
(1) very important	83.9	93.2	88.9	89.5	100.0	83.3	89.2	88.2	67
(2) ...	12.9	6.8	5.6	10.5	0.0	16.7	8.1	9.2	7
(3) ...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0
(4) ...	3.2	0.0	5.6	0.0	0.0	0.0	2.7	1.3	1
(5) not at all important	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0
Total number (n)	32	44	18	58	14	24	38		76

Own survey. – 1 three respondents did not provide answers to these questions, one further respondent did not know (included in n). – 2 % based on cases that have business partners; one respondent did not know (included in n).

In general the *business development* for most of our sample companies appears to have been stagnating and, on average, the number of answers indicating negative development seems to exceed that for positive development. This is in accordance with the general trend of SME development in Germany, which has been slow for the past three years due to the general economic situation (Mittelstandsmonitor, 2003). According to the same study, the weak domestic demand has affected German SMEs particularly intensely because of their strong domestic orientation. In particular, micro businesses seem to have been doing worse than small businesses and, similarly, East German firms slightly worse than West German ones, although the regional differences are much smaller than the size-based ones. The regional difference appears to reflect the fact that East German SMEs have been experiencing an economic downturn since 2000, whereas their West German counterparts did comparatively well up to 2002 (Mittelstandsmonitor, 2003). In general, the business services sector is doing better than other sectors, while the trade sector is the one, alongside construction, to have suffered the most from the current economic situation (Mittelstandsmonitor, 2003; NEW.S, 2001; Deutsche Bundesbank, 2002a and 2002b). However, the sectoral differences in our non-representative sample are, on the whole, minor and vary according to the measure of business development.

Table 4: Development of sales volume and number of employees, %

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Sales volume in 2001 compared to 2000									
...higher	36.6	26.3	21.5	38.5	36.9	37.3	23.8	31.6	62
...about the same	22.8	24.2	25.3	22.2	26.2	15.7	26.3	23.5	46
...lower	38.6	46.3	51.9	35.9	35.4	43.1	47.5	42.3	83
Total number (n)	101	95	79	117	65	51	80		196
Number of employees compared to 12 months ago ²									
...higher	16.7	11.6	2.5	22.0	13.6	15.7	13.8	14.2	28
...about the same	51.0	55.8	59.5	49.2	50.0	56.9	53.8	53.3	105
...lower	32.4	29.5	36.7	27.1	34.8	25.5	31.3	31.0	61
Total number (n)	102	95	79	118	66	51	80		197

Own survey. – 1 five respondents could not answer this question due to their firms having been founded in 2001 or 2002 (included in n), one further respondent did not provide an answer. – 2 three respondents could not answer this question due to their firms having been founded less than 12 months ago (included in n).

Similar tendencies can be seen in the assessments of *satisfaction with the development of turnover, profit and personal goals*. While the satisfaction ratings related to turnover and personal goals tend towards the middle values on the five-point scale, the entrepreneurs are clearly less satisfied with the development of profits. In general, West German and small businesses appear to be slightly more satisfied than East German and micro enterprises, respectively. However, the differences are rather small. Although, in general, the sectoral differences are minor, it is interesting to note that trade repeatedly has the highest ratings in the ‘very dissatisfied’ category. This appears to reflect the particularly difficult situation in this sector.

Table 5: Satisfaction with the development of turnover, profit and personal goals in 2001, %

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Turnover ¹									
(1) very satisfied	8.9	6.5	5.2	9.4	3.0	5.9	13.0	7.7	15
(2) ...	22.8	19.4	16.9	23.9	25.8	23.5	15.6	21.1	41
(3) ...	40.6	49.5	44.2	45.3	47.0	39.2	46.8	44.8	87
(4) ...	16.8	11.8	16.9	12.8	16.7	15.7	11.7	14.4	28
(5) very dissatisfied	9.9	7.5	14.3	5.1	6.1	13.7	7.8	8.8	17
Total number (n)	101	93	77	117	66	51	77		194
Profit ²									
(1) very satisfied	5.0	5.4	3.8	6.1	3.1	2.0	9.0	5.2	10
(2) ...	20.0	15.1	14.1	20.0	20.3	23.5	11.5	17.6	34
(3) ...	28.0	25.8	23.1	29.6	28.1	23.5	28.2	26.9	52
(4) ...	24.0	29.0	29.5	24.3	28.1	21.6	28.2	26.4	51
(5) very dissatisfied	22.0	19.4	28.2	15.7	17.2	27.5	19.2	20.7	40
Total number (n)	100	93	78	115	64	51	78		193
Personal goals ³									
(1) very satisfied	5.9	3.2	3.8	5.1	7.7	2.0	3.8	4.6	9
(2) ...	24.8	28.4	24.1	28.2	24.6	33.3	23.8	26.5	52
(3) ...	43.6	37.9	36.7	43.6	40.0	39.2	42.5	40.8	80
(4) ...	19.8	21.1	24.1	17.9	21.5	13.7	23.8	20.4	40
(5) very dissatisfied	5.9	5.3	10.1	2.6	3.1	9.8	5.0	5.6	11
Total number (n)	101	95	79	117	65	51	80		196

Own survey. – Three respondents could not answer these questions due to their firms having been founded in 2002. – 1 three respondents did not answer and three further ones did not know (latter included in n). – 2 four respondents did not answer and three further ones did not know (included in n). – 3 one respondent did not answer and one did not know (latter included in n).

Profile of the Owner/Manager/Respondent

The *interviewee sample* consists of 22 % females and 78 % males, whereby there are more women in the East German and food industry samples. The largest age group are respondents in their 40s, followed by 50 to 59-year olds. This has partly to do with most of the surveyed firms being established ones. However, it is worth noting that the East German entrepreneurs are on average older than the West German ones, which is a characteristic that has also been found in previous studies (Koch and Thomas, 1997; Nuissl et al., 2002). Nuissl et al. (2002), and that the age of the East German entrepreneur population leads to problems with respect to qualifications, readiness for further training and motivation for innovation, which might hamper business development in the long run.

Table 6: Sex and age, %

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Sex									
Female	16.7	28.4	21.5	22.9	28.8	17.6	20.0	22.3	44
Male	83.3	71.6	78.5	77.1	71.2	82.4	80.0	77.7	153
Total number (n)	102	95	79	118	66	51	80		197
Age ¹									
20-29	2.0	3.2	0.0	4.2	3.0	0.0	3.8	2.5	5
30-39	25.5	13.7	16.5	22.0	25.8	23.5	12.5	19.8	39
40-49	38.2	35.8	40.5	34.7	36.4	35.3	38.8	37.1	73
50-59	18.6	33.7	21.5	28.8	24.2	27.5	26.3	25.9	51
60+	15.7	13.7	21.5	10.2	10.6	13.7	18.8	14.7	29
Total number (n)	102	95	79	118	66	51	80		197

Own survey. – 1 The sample does not contain entrepreneurs who are younger than 20 years old.

Approximately half of the interviewees have a higher education degree, while 21 % have a higher vocational degree (Meister, Techniker), and another 20 % a vocational degree (Lehre). Furthermore, a few respondents are graduates of a technical school, while one respondent has no education at all. A few more mentioned a degree other than ones in our list, e.g. Abitur (the German equivalent to A-levels) or a tax consultant diploma (Berufsdiplom Steuerberater). A university or polytechnic degree is more common in East Germany in all sectors, which is a characteristic well known to research on transition countries. The difference has also been found in previous research in the German context (Koch and Thomas, 1997). Female respondents have vocational degrees more often than average and higher vocational or higher education degrees slightly less often than average. The sectoral differences can be explained to a large extent by the content of the sectoral samples: There is a large share of crafts firms in the food industry sample, which usually require a higher vocational degree from the entrepreneur. Similarly, most business service firms operate in a business where a higher education degree often is a necessity. Furthermore, there are many (micro) retail firms in the trade sample which do not necessarily require a higher vocational or a university degree. Interestingly, the size-based differences are negligible.

Approximately half of the respondents had their *previous job* in the private sector as non-owners. 12 % had owned a business before the current one. Serial entrepreneurship appears to be comparatively more common among micro firm owners, as well as in the food industry and trade sectors. Very few were unemployed just before founding the business. This appears to indicate a low level of necessity start-ups – or at least the entrepreneurs had reacted before being made redundant, as is demonstrated in our case studies (e.g. cases #3 and #8). Almost half of the interviewees had gained *management experience* in their previous job. This is more common for East German as well as male respondents. The regional difference may be at least partly due to the East German entrepreneurs, on average, being older and having a higher education level than their West German colleagues.

Table 7: Education, %

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
None	1.0	0.0	0.0	0.8	1.5	0.0	0.0	0.5	1
Vocational degree	28.4	11.6	21.5	19.5	22.7	39.2	6.3	20.3	40
Higher vocational degree	24.5	16.8	21.5	20.3	42.4	19.6	3.8	20.8	41
Technical school	4.9	7.4	6.3	5.9	4.5	5.9	7.5	6.1	12
University or polytechnic	35.3	64.2	48.1	50.0	25.8	35.3	77.5	49.2	97
Other	5.9	0.0	2.5	3.4	3.0	0.0	5.0	3.0	6
Total number (n)	102	95	79	118	66	51	80		197

Own survey.

Table 8: Previous employment and managerial experience, %

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Previous employment ¹									
State production sphere	11.7	25.9	19.2	17.9	21.7	10.9	20.5	18.4	33
Research and/or education institutions	6.4	9.4	5.5	9.4	5.0	6.5	11.0	7.8	14
Private business (not owner)	54.3	47.1	47.9	52.8	46.7	60.9	47.9	50.8	91
Already owner-manager	10.6	14.1	16.4	9.4	16.7	15.2	6.8	12.3	22
In education / training	14.9	1.2	8.2	8.5	6.7	4.3	12.3	8.4	15
Unemployed	2.1	2.4	2.7	1.9	3.3	2.2	1.4	2.2	4
Total number (n)	94	85	73	106	60	46	73		179
Managerial experience									
Yes	39.2	57.9	46.8	49.2	45.5	43.1	53.8	48.2	95
No	60.8	42.1	53.2	50.8	54.5	56.9	46.3	51.8	102
Total number (n)	102	95	79	118	66	51	80		197

Own survey. – 118 respondents did not answer this question.

Characteristics of the Market Served

Like most SMEs, also the German ones are in general *strongly domestically oriented* (Mittelstandsmonitor, 2003). This is clearly shown in the survey – almost all firms serve the local market and many also serve the domestic market at large, while only approximately 25 % are present in foreign markets. Not surprisingly, in both domestic markets there are more ‘local’ firms present, i.e. more West German firms in West Germany and more East German firms in East Germany. However, there are far more East German firms in the West German market than vice versa. West German businesses and small enterprises appear to be more export-oriented than

East German firms and micro enterprises respectively. Moreover, food industry respondents are least often present in foreign markets, which reflects the general low export-orientation in this sector for German enterprises (Menrad, 2001).

Table 9: Market presence in 2001, %

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Local market	91.9	91.6	92.2	91.5	86.4	98.0	92.2	91.8	178
East Germany	25.3	61.1	29.9	51.3	34.8	39.2	51.9	42.8	83
West Germany	52.5	43.2	40.3	53.0	40.9	37.3	61.0	47.9	93
Eastern Europe	15.2	7.4	5.2	15.4	7.6	13.7	13.0	11.3	22
Western Europe	26.3	12.6	10.4	25.6	13.6	23.5	22.1	19.6	38
Overseas	13.1	12.6	6.5	17.1	13.6	7.8	15.6	12.9	25
Total number (n)	99	95	77	117	66	51	77		194

Own survey. Multiple answers. Three respondents did not answer this question and for three further ones it was not relevant due to the firms having been founded in 2002 (latter included in n).

The domestic orientation of German small firms is also apparent in the reported share of *turn-over generated per market*. Based on these figures, the largest turnover share is quite clearly generated in the *local and domestic markets*. As might be expected, the ‘home domestic market’ is more important for both East and West German firms. Food industry and trade to be appear more locally bound than business services and, not surprisingly, micro firms seem to be more locally concentrated than small enterprises.

The local and domestic markets seem to be rather stagnant, as only few companies have been able to increase their turnover from 2000 to 2001. In general, West German firms and small businesses have done slightly better in terms of turnover increase. The regional difference may be rooted in the fact that West German SMEs did not experience an economic downturn until 2002, whereas the situation in East Germany had already worsened in 2000 (Mittelstandsmonitor, 2003).

Table 10: Turnover share in domestic markets in 2000 – 2001, %

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Local market ¹									
0 %	8.7	8.9	8.5	9.0	14.5	2.2	8.0	8.8	16
1 – 25 %	9.8	6.7	7.0	9.0	11.3	6.7	6.7	8.2	15
26 – 50 %	8.7	10.0	7.0	10.8	4.8	8.9	13.3	9.3	17
51 – 75 %	10.9	7.8	8.5	9.9	3.2	4.4	17.3	9.3	17
76 – 99 %	15.2	28.9	18.3	24.3	12.9	26.7	26.7	22.0	40
100 %	41.3	32.2	46.5	30.6	46.8	44.4	24.0	36.8	67
Total number (n)	92	90	71	111	62	45	75		182
West Germany ²									
0 %	49.0	56.8	61.3	47.4	60.0	64.0	39.5	52.9	101
1 – 25 %	9.4	25.3	12.0	20.7	16.9	10.0	22.4	17.3	33
26 – 50 %	7.3	6.3	5.3	7.8	7.7	4.0	7.9	6.8	13
51 – 75 %	3.1	5.3	2.7	5.2	3.1	4.0	5.3	4.2	8
76 – 99 %	14.6	2.1	9.3	7.8	3.1	10.0	11.8	8.4	16
100 %	8.3	2.1	6.7	4.3	3.1	4.0	7.9	5.2	10
Total number (n)	96	95	75	116	65	50	76		191
East Germany ³									
0 %	76.3	41.3	73.0	50.5	68.8	64.6	48.1	59.2	112
1 – 25 %	13.4	13.0	10.8	14.8	9.4	16.7	14.3	13.2	25
26 – 50 %	4.1	14.1	0.0	14.8	7.8	6.3	11.7	9.0	17
51 – 75 %	0.0	4.3	2.7	1.7	0.0	0.0	5.2	2.1	4
76 – 99 %	1.0	17.4	6.8	10.4	9.4	4.2	11.7	9.0	17
100 %	1.0	5.4	4.1	2.6	0.0	4.2	5.2	3.2	6
Total number (n)	97	92	74	115	64	48	77		189

Own survey. There are 2-10 “do not know” answers per market category (included in n). – 1 15 respondents did not answer this question. – 2 Six respondents did not answer this question. – 3 Eight respondents did not answer this question.

Table 11: Turnover change in domestic markets 2000 – 2001, %

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Local market ¹									
No change	50.0	55.8	57.4	50.0	52.7	60.4	47.8	52.9	91
Increase	20.9	12.8	10.3	21.2	18.2	16.7	15.9	16.9	29
Decrease	26.7	31.4	30.9	27.9	29.1	18.8	36.2	29.1	50
Total number (n)	86	86	68	104	55	48	69		172
West Germany ²									
No change	57.1	53.7	50.0	58.3	53.8	68.4	51.1	55.6	50
Increase	6.1	39.0	20.0	21.7	19.2	5.3	28.9	21.1	19
Decrease	32.7	7.3	30.0	16.7	23.1	26.3	17.8	21.1	19
Total number (n)	49	41	30	60	26	19	45		90
East Germany ³									
No change	50.0	50.9	63.6	45.6	45.5	61.1	48.7	50.6	40
Increase	13.6	19.3	0.0	24.6	31.8	11.1	12.8	17.7	14
Decrease	31.8	29.8	36.4	28.1	22.7	27.8	35.9	30.4	24
Total number (n)	22	57	22	57	22	18	39		79

Own survey. Includes only firms that were present in the respective market in 2001. There are 1-2 “do not know” answers per market category (included in n). – 1 Nine respondents did not answer this question. – 2 Six respondents did not answer this question. – 3 Seven respondents did not answer this question.

Excluding a few individual cases, *foreign markets* play only a minor role for our sample companies in terms of turnover. However, a far larger share of firms were able to increase their sales in foreign markets than was the case in domestic markets, where the demand is weak (Mittelstandsmonitor, 2003). Especially the firms trading in Eastern European and overseas markets often reported increases in turnover.

Table 12: Turnover share in foreign markets in 2000 – 2001, %

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Western Europe ¹									
0 %	75.3	87.4	90.8	75.0	87.7	78.0	77.9	81.3	156
1 – 25 %	19.6	8.4	9.2	17.2	7.7	20.0	15.6	14.1	27
26 – 50 %	2.1	1.1	0.0	2.6	0.0	0.0	3.9	1.6	3
51 – 75 %	1.0	0.0	0.0	0.9	0.0	2.0	0.0	0.5	1
Total number (n)	97	95	76	116	65	50	77		192
Eastern Europe ²									
0 %	86.6	93.6	96.1	86.1	93.8	88.0	88.2	90.1	172
1 – 25 %	10.3	4.3	3.9	9.6	3.1	10.0	9.2	7.3	14
26 – 50 %	2.1	1.1	0.0	2.6	1.5	2.0	1.3	1.6	3
51 – 75 %	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0
Total number (n)	97	94	76	115	65	50	76		191
Overseas ³									
0 %	88.8	88.3	93.5	85.2	87.7	94.2	85.5	88.5	170
1 – 25 %	9.2	6.4	3.9	10.4	7.7	3.9	10.5	7.8	15
26 – 50 %	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0
51 – 75 %	0.0	1.1	0.0	0.9	0.0	0.0	1.3	0.5	1
Total number (n)	98	94	77	115	65	51	76		192

Own survey. There are 2–6 “do not know” answers per market category (included in n). – 1 Five respondents did not answer this question. – 2 Six respondents did not answer this question. – 3 Five respondents did not answer this question.

Table 13: Change in turnover in foreign markets 2000 – 2001, %

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Western Europe ¹									
No change	65.2	41.7	75.0	51.9	75.0	54.5	50.0	57.1	20
Increase	8.7	41.7	12.5	22.2	0.0	27.3	25.0	20.0	7
Decrease	21.7	8.3	12.5	18.5	12.5	18.2	18.8	17.1	6
Total number (n)	23	12	8	27	8	11	16		35
Eastern Europe ²									
No change	46.2	28.6	25.0	43.8	50.0	28.6	44.4	40.0	8
Increase	38.5	42.9	50.0	37.5	25.0	42.9	44.4	40.0	8
Decrease	15.4	14.3	25.0	12.5	0.0	28.6	11.1	15.0	3
Total number (n)	13	7	4	16	4	7	9		20
Overseas ³									
No change	45.5	27.3	60.0	29.4	37.5	25.0	40.0	36.4	8
Increase	36.4	45.5	20.0	47.1	12.5	75.0	50.0	40.9	9
Decrease	18.2	18.2	20.0	17.6	37.5	0.0	10.0	18.2	4
Total number (n)	11	11	5	17	8	4	10		22

Own survey. Includes only firms that were present in the respective market in 2001. There are 1–2 “do not know” answers per market category (included in n). – 1 Six respondents did not answer this question. – 2 Five respondents did not answer this question. – 3 Six respondents did not answer this question.

The most important *customer groups* in general are final consumers and other companies, although there are sectoral differences. Business services and trade concentrate on these two customer groups, while in the food industry retail outlets and wholesalers also play an important role. Moreover, public organisations are more often served by business service firms than ones in the other two sectors. These differences are also at least partly reflected in the regional and size-based comparison. For example, retailers and wholesalers are found more frequently in the West German and small-business samples, which have comparatively more food-industry firms.

Table 14: Types of customers, %

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Final consumer	62.9	78.7	77.3	66.4	74.2	66.7	70.3	70.7	135
Distributor/ wholesalers	27.8	18.1	16.0	27.6	33.3	21.6	14.9	23.0	44
Retail outlets	35.1	25.5	21.3	36.2	57.6	21.6	12.2	30.4	58
Other companies	52.6	67.0	60.0	59.5	42.4	56.9	77.0	59.7	114
Public organisations	7.2	7.4	2.7	10.3	3.0	3.9	13.5	7.3	14
Total number (n)	97	94	75	116	66	51	74		191

Own survey. Multiple answers. Six respondents did not answer this question and one respondent did not know (latter included in n).

Business services serve, as expected, the smallest *numbers of customers* on average, with about half of them having 50 or less customers. The food industry has very large numbers of custom-

ers more often than have the other sectors. A moderate amount of trade firms serve both small and large numbers of customers. 71 % of all firms report that more than half of their customer base consists of *regular customers*. West German businesses and small businesses show higher regularity rates than East German firms and micro enterprises respectively. It might be assumed that West German businesses are more established than East German ones and thus have a higher regularity rate. However, the case studies do not seem to support this, but rather attribute the differences to the nature of the business. Furthermore, there is some evidence in the case studies that the personal contact networks brought by West German entrepreneurs from their previous jobs to the new firm may have allowed a quicker establishment of regular business relations (e.g. cases #12 and #15). In interpreting the fact that the business services sample shows lower regularity rates than the other sectors, one should note that there were many more 'do not know' or 'not relevant' responses among the business service firms. This may affect the lower percentages in the regularity rates.

Table 15: Number of customers and share of regular customers, %

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Number of customers ¹									
do not know	29.3	29.1	30.6	28.3	42.2	18.8	24.7	29.2	54
0	1.0	2.3	1.4	1.8	0.0	0.0	4.1	1.6	3
1 – 10	10.1	11.6	18.1	6.2	4.7	8.3	17.8	10.8	20
11 – 50	10.1	23.3	11.1	19.5	4.7	12.5	28.8	16.2	30
51 – 100	9.1	5.8	9.7	6.2	6.3	8.3	8.2	7.6	14
101 – 250	11.1	8.1	8.3	10.6	7.8	14.6	8.2	9.7	18
251 – 500	10.1	7.0	6.9	9.7	6.3	16.7	5.5	8.6	16
501 – 1000	2.0	3.5	2.8	2.7	6.3	2.1	0.0	2.7	5
1000 +	17.2	9.3	11.1	15.0	21.9	18.8	2.7	13.5	25
Total number (n)	99	86	72	113	64	48	73		185
Share of regular customers ²									
1 – 25 %	2.9	14.6	14.7	4.3	3.1	10.0	11.8	8.4	16
26 – 50 %	14.7	14.6	20.0	11.2	18.5	14.0	11.8	14.7	28
51 – 75 %	16.7	19.1	14.7	19.8	18.5	16.0	18.4	17.8	34
76 – 99 %	48.0	39.3	40.0	46.6	49.2	48.0	36.8	44.0	84
100 %	9.8	7.9	5.3	11.2	7.7	10.0	9.2	8.9	17
Total number (n)	102	89	75	116	65	50	76		191

Own survey. – 1 12 respondents did not answer this question. – 2 Six respondents did not answer this question. For three respondents this question was not relevant due to them having no customers and nine further ones did not know (both included in n).

Most of the companies have less than 25 *suppliers*. Not surprisingly, trade has more suppliers than the other sectors, while almost a third of the business-service firms do not have suppliers at all. Supplier relations are clearly more regular than customer relations: 32 % reported only regular supplier relations (compared to 9 % reporting only regular customers), while another 21 % said that more than 75 % of their supplier relations are regular. As was the case with customer relations, West German firms report a much higher regularity rate than East German ones. The same arguments as in the case of customer relations are also valid here. The sectoral differences reflect the importance of suppliers: the food industry and trade have mostly regular supplier

relations, while they are far less common in business services. Based on the case studies, there seldom seems to be a need for business service firms to have strong relationships with suppliers, because often the suppliers are only marginally important (e.g. in IT services or consulting).

Table 16: Supplier base, %

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Number of suppliers ¹									
0	7.4	14.4	14.5	8.7	0.0	0.0	29.4	10.9	20
1 – 5	12.8	16.7	18.8	12.2	15.2	14.0	14.7	14.7	27
6 – 10	22.3	15.6	27.5	13.9	27.3	14.0	14.7	19.0	35
11 – 25	25.5	24.4	17.4	29.6	31.8	26.0	17.6	25.0	46
26 – 50	13.8	16.7	13.0	16.5	13.6	20.0	13.2	15.2	28
51 – 100	5.3	5.6	1.4	7.8	4.5	10.0	2.9	5.4	10
100 +	7.4	5.6	4.3	7.8	3.0	12.0	5.9	6.5	12
Total number (n)	94	90	69	115	66	50	68		184
Share of regular suppliers ²									
1 – 25 %	7.5	17.4	12.9	12.2	13.6	20.0	5.8	12.4	23
26 – 50 %	6.5	17.4	14.3	10.4	4.5	10.0	20.3	11.9	22
51 – 75 %	8.6	10.9	4.3	13.0	9.1	8.0	11.6	9.7	18
76 – 99 %	23.7	18.5	11.4	27.0	24.2	26.0	14.5	21.1	39
100 %	43.0	20.7	41.4	26.1	45.5	34.0	17.4	31.9	59
Total number (n)	93	92	70	115	66	50	69		185

Own survey. – 1 13 respondents did not answer this question, six further ones did not know (latter included in n). – 2 12 respondents did not know. For 20 firms this question was not relevant due to them having no suppliers and four further ones did not know (both included in n).

The most common means of *product/service marketing and customer acquisition* are informal: recommendations from customers and suppliers are used by almost all interviewed firms and word of mouth via family and friends is the second most important means. This indicates an important role especially for collective, but also for personal, trust based on social networks and trust intermediaries. The third and fourth most frequently reported means of marketing are brochures and advertising. Approximately a third of all firms use fairs/events and sales reps/offices for sales and customer acquisition, both of which refer to the importance of personal contact with the customer and thus to the importance of personal trust.

While recommendations are used by virtually all firms across regions, sizes and sectors, word of mouth is relied on especially by East German, food-industry and micro firms. This appears to emphasise the importance of social networks for these firms. At least in the case of food industry and micro firms, this could be due to the stronger local character of the business. For East German firms it could also be a relic from the early 1990s, when social networks of family and friends still played a major role in business life (Koch and Thomas, 1997; Nuissl et al., 2002). Although the situation is different now, most of our East German sample firms were in fact founded in the early 1990s and could have retained their social networks as an important factor in their business. However, the case-study results do not appear to support this interpretation.

Business-service firms appear to rely mostly on recommendations – word of mouth is less important than in the other sectors and the other means of marketing seem to be of marginal importance. This appears to underline the significance of strong, long-term customer relationships

in this sector, which is also demonstrated in the case studies (e.g. cases #6, #7 and #12). Apparently due to the nature of business in the trade sector, these firms tend more towards using trade fairs and sales reps/offices than firms in the other sectors. The difference between micro and small firms is, not surprisingly, particularly clear in the use of more costly means of marketing, such as sales reps/offices, trade fairs and agents.

Table 17: Methods to increase sales and/or to gain customers, %

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Recommendations from customers and suppliers	96.1	94.7	92.4	97.5	98.5	92.2	95.0	95.4	188
Word of mouth via family & friends	59.8	72.6	74.7	60.2	83.3	64.7	52.5	66.0	130
Brochures, flyers etc.	52.9	43.2	43.0	51.7	53.0	64.7	33.8	48.2	95
Advertising in mass media	39.2	40.0	36.7	41.5	48.5	51.0	25.0	39.6	78
Fairs, exhibitions, events	27.5	31.6	17.7	37.3	25.8	43.1	23.8	29.4	58
Sales reps, sales offices	27.5	26.3	13.9	35.6	24.2	43.1	18.8	26.9	53
Internet	12.7	18.9	13.9	16.9	7.6	15.7	22.5	15.7	31
Agents	17.6	12.6	6.3	21.2	16.7	25.5	7.5	15.2	30
Other	2.9	9.5	7.6	5.1	6.1	5.9	6.3	6.1	12
Total number (n)	102	95	79	118	66	51	80		197

Own survey. Multiple answers.

The *sources of market information* are similar both with regard to domestic and foreign markets. Trade journals and literature are clearly the most common information source in both markets. A similar finding has been made in a previous study of food-industry SMEs (NEW.S, 2001). However, this study found business associations to be as important a source of market information as trade journals and literature, while in our study business associations appear to be only of medium importance. The next most common sources of market information include both 'formal' and 'informal' sources. The respondents mentioned the network of existing customers and suppliers more or less as often as the general press and media, trade fairs and colleagues from the same industry.

Regional differences are relatively small in general and thus we can not say that either East or West Germans use formal or informal sources more often. However, there are two interesting differences: East German firms gain market information much more often than West German companies from their own employees (albeit only domestic market information) or by conducting their own market research. Micro enterprises have a lower percentage than small businesses in all categories. This must be due to micro enterprises giving 'less' replies than small businesses in the multiple answers. However, there do not appear to be major differences in the relative importance of information sources between micro and small firms. In terms of sectors, trade appears to rely more on informal sources (customers and suppliers, colleagues, trade fairs) while food industry and business services use comparatively more institutional sources (general press/media, business associations).

Table 18: Sources of market information with regard to domestic and foreign markets, %

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Domestic market									
Trade journal/ literature	90.8	90.3	84.0	94.8	90.8	90.2	90.7	90.6	173
Existing customers and suppliers	74.5	82.8	76.0	80.2	73.8	86.3	77.3	78.5	150
General press/media	81.6	72.0	68.0	82.8	81.5	68.6	78.7	77.0	147
Trade fairs/ exhibitions	75.5	74.2	65.3	81.0	81.5	84.3	62.7	74.9	143
Colleagues from the same industry	75.5	73.1	69.3	77.6	69.2	84.3	72.0	74.3	142
Informally from other business partners	61.2	69.9	60.0	69.0	66.2	66.7	64.0	65.4	125
Business associations, chambers of commerce	56.1	53.8	41.3	63.8	67.7	35.3	57.3	55.0	105
Employees	36.7	60.2	37.3	55.2	44.6	41.2	56.0	48.2	92
Own market research	19.4	44.1	24.0	36.2	33.8	27.5	32.0	31.4	60
Consultant, business support agency	15.3	21.5	12.0	22.4	26.2	13.7	14.7	18.3	35
Internet	20.4	15.1	14.7	19.8	16.9	21.6	16.0	17.8	34
Other	1.0	3.2	1.3	2.6	3.1	0.0	2.7	2.1	4
Total number (n)	98	93	75	116	65	51	75		191
Foreign market									
Trade journal/ literature	39.8	43.0	32.0	47.4	41.5	45.1	38.7	41.4	79
Existing customers and suppliers	34.7	32.3	21.3	41.4	29.2	35.3	36.0	33.5	64
General press/media	30.6	34.4	21.3	39.7	38.5	31.4	28.0	32.5	62
Trade fairs/ exhibitions	26.5	34.4	20.0	37.1	24.6	37.3	30.7	30.4	58
Colleagues from the same industry	27.6	26.9	20.0	31.9	16.9	35.3	30.7	27.2	52
Informally from other business partners	23.5	25.8	16.0	30.2	20.0	29.4	25.3	24.6	47
Business associations, chambers of commerce	13.3	22.6	8.0	24.1	18.5	11.8	21.3	17.8	34
Own market research	9.2	16.1	8.0	15.5	9.2	13.7	14.7	12.6	24
Employees	12.2	11.8	6.7	15.5	9.2	11.8	14.7	12.0	23
Internet	13.3	7.5	9.3	11.2	9.2	13.7	9.3	10.5	20
Consultant, business support agency	6.1	10.8	4.0	11.2	6.2	7.8	10.7	8.4	16
Total number (n)	98	93	75	116	65	51	75		191

Own survey. Multiple answers. Six respondents did not answer these questions.

Customer-Supplier Relationships and the Role of Trust

Previous research characterises the German environment as tightly regulated and having a strong institutional order, which implies a high level of institutional trust (Bachmann and Lane, 2001). This argument is supported by our results, which indicate an important role for written contracts in *regulating customer and supplier relationships* in both East and West Germany. Approximately 59 % of all firms use written contracts and, in fact, East German businesses tend

to rely on them even more than West Germans. This difference also exists across sectors, i.e. it is not caused by the fact that there are more business service firms in the East German sample, which regulate their relationships in writing much more often than firms in the other sectors. A similar finding was made by Schwarz (2000), who found that West German entrepreneurs tended more towards social networks and informal arrangements, whereas the East Germans usually first relied on formal institutions. One explanation is that this practice is rooted in the socialist past of strongly institutionalised and regulated relations outside one's social sphere (Nuissl et al., 2002).

The differences between micro and small enterprises appears to support the general notion of smaller firms possessing lesser resources for formal governance and being overall less formal (Lyons, 1994; Schumacher and Moyle, 2001). The sectoral differences appear to be largely caused by the nature of business and customer base for the firms constituting the sectoral samples. For example, the firms in the food industry (mostly bakeries and butcher's shops) regulate their relationships more orally because their business involves cash payments, standardised products and a large share of occasional customers. Similarly, business-service companies often have complex products and a relatively small number of long-term customers. These features appear to call for more written contracts. Furthermore, the case studies indicate that there are also differences within the sectors caused by the nature of the business and customer base. Thus, not only the sector as such, but also the characteristics of the market served, seem to affect firms' behaviour. Similar results were also found with regards to supplier relations.

Table 19: Usual types of agreement with customer and supplier, %

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Customer relations ¹									
Written contract	48.5	69.9	49.4	65.5	34.4	58.0	78.5	58.9	112
Oral agreement	29.9	22.6	29.9	23.9	42.6	24.0	15.2	26.3	50
No regulation	16.5	5.4	14.3	8.8	21.3	12.0	2.5	11.1	21
Varying	3.1	2.2	3.9	1.8	1.6	4.0	2.5	2.6	5
Total number (n)	97	93	77	113	61	50	79		190
Supplier relations ²									
Written contract	48.9	59.1	47.1	58.4	49.2	63.3	52.1	54.1	99
Oral agreement	33.3	18.3	24.3	26.5	39.7	26.5	12.7	25.7	47
No regulation	7.8	5.4	10.0	4.4	9.5	8.2	2.8	6.6	12
Varying	2.2	2.2	2.9	1.8	1.6	2.0	2.8	2.2	4
Total number (n)	90	93	70	113	63	49	71		183

Own survey. – 1 Seven respondents did not answer and two further ones did not know (latter included in n). – 2 14 respondents did not answer; 20 business services firms reported having no suppliers at all and one further respondent did not know (both included in n).

However, the role of the written contract in relation to trust needs to be questioned. Contracts are not necessarily safeguards, but may fulfil other functions that are possibly complementary to trust, such as serving as a memory aid or a sign of commitment (Klein Woolthuis et al., 2002). Although the functions of written contracts remain ambiguous in the survey results, the case study results indicate that contracts are not only safeguards, but also memory aids, a business habit or a requirement of the German institutional environment. Therefore, the written contract as such should not be considered as an indicator of institutional trust without examining its function more closely. On the other hand, the case study results also show that institutional trust

associated with written contracts is high – almost every interviewed firm would turn to the written contract (or another written document valid in court, such as a delivery note) and a solicitor if all informal channels of solving business problems had failed.

Table 20: Criteria used in choosing the agreement type, %

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Previous experience with the company	93.8	92.4	90.7	94.7	90.6	91.7	96.1	93.1	176
Recommendation from a business partner	78.4	89.1	78.7	86.8	84.4	87.5	80.5	83.6	158
Reputation of the customer or supplier	68.0	69.6	64.0	71.9	62.5	70.8	72.7	68.8	130
Amount of the expected deal	61.9	67.4	61.3	66.7	65.6	72.9	58.4	64.6	122
Guarantees, collaterals	59.8	65.2	50.7	70.2	67.2	70.8	53.2	62.4	118
Personal relationship, personal impression ¹	9.3	1.1	9.3	2.6	9.4	4.2	2.6	5.3	10
Quality, reliability ¹	4.1	4.3	1.3	6.1	1.6	4.2	6.5	4.2	8
Enquiry at credit information agency ¹	3.1	1.1	1.3	2.6	0.0	4.2	2.6	2.1	4
Expected long-term orientation of the relation ¹	4.1	0.0	2.7	1.8	0.0	4.2	2.6	2.1	4
Other	1.0	4.3	0.0	4.4	1.6	0.0	5.2	2.6	5
Total number (n)	97	92	75	114	64	48	77		189

Own survey. Multiple answers. Eight respondents did not answer this question. – 1 Quantified from open answers.

Personal trust appears to play the most important role when looking at the *criteria used in choosing the form of regulation* in customer and supplier relationships. Previous experiences with the business partner were mentioned by almost every respondent, and recommendations from other business partners also appear to play a significant role in this context. These indicate personal trust created through learning and social networks, respectively. Furthermore, there are three other factors of moderate importance. From these reputation – referring to collective trust – is slightly more often mentioned by our survey firms than the amount involved in the deal or guarantees and collaterals.

The amount involved in the expected deal corresponds to the ‘stakes’ in the ‘trust bet’, i.e. what could be gained (or lost) by trusting (Coleman, 1990). In general, the logic of prudent trust decisions would imply that the higher the stakes, the more likely the firm would be to use formal safeguards if the level of trust in the relationship is not particularly high (see Sztompka, 1999). Therefore, it is slightly surprising that this criterion was least often mentioned by business-service firms, which, more often than companies in the other sectors, have complex products or services whose implementation may take months. On the other hand, this could also indicate that the level and role of trust in the often long-term customer relations in this sector is higher than in food industry and trade. This assumption would appear to be supported by the similar

results concerning guarantees and collaterals –in this case the business-service companies also rely on these formal safeguards less often than firms in the other two sectors. In this respect there is also a notable difference between micro and small firms: the latter clearly use formal safeguards more often. This, however, does not suggest that micro firms have less institutional trust, but is rather another indication that the more limited resources of micro firms lead to a higher reliance on personal and collective trust (see Schumacher and Moyle, 2001).

The *payment terms* offered to customers are most often cash on delivery, bank transfer or credit for up to a month. Payment terms received from suppliers by our sample firms are most often bank transfer or credit for up to a month. The frequency of cash payments to suppliers is lower, as they are in general between firms. The customers include a high number of end consumers, which explains why cash payments are more frequent here. The differences in the payment terms appear to be due to sectoral differences. Regional differences can be found, but these are always only within certain sectors and cannot thus be generalised. Furthermore, the case study results point out that there are also intra-sectoral differences, which appear to be due to the nature of business and customer base.

Table 21: Payment terms offered to customers and received from suppliers, %

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Payment terms offered to customers ¹									
Cash on delivery	52.0	41.1	48.7	45.3	75.4	51.0	20.3	46.7	91
Bank transfer	37.0	44.2	48.7	35.0	36.9	39.2	44.3	40.5	79
Credit up to 1 week	17.0	7.4	5.1	17.1	18.5	9.8	8.9	12.3	24
Credit up to 14 days ³	5.0	4.2	3.8	5.1	6.2	3.9	3.8	4.6	9
Credit up to 1 month	30.0	35.8	30.8	34.2	23.1	37.3	38.0	32.8	64
Credit more than 1 month	6.0	4.2	2.6	6.8	10.8	2.0	2.5	5.1	10
Other	4.0	2.1	3.8	2.6	0.0	3.9	5.1	3.1	6
Total number (n)	100	95	78	117	65	51	79		195
Payment terms received from suppliers ²									
Cash on delivery	18.3	19.4	22.2	16.7	16.9	23.5	17.1	18.8	35
Bank transfer	39.8	38.7	43.1	36.8	53.8	39.2	25.7	39.2	73
Credit up to 1 week	15.1	14.0	11.1	16.7	18.5	19.6	7.1	14.5	27
Credit up to 14 days ³	2.2	4.3	2.8	3.5	6.2	2.0	1.4	3.2	6
Credit up to 1 month	40.9	32.3	31.9	39.5	29.2	39.2	41.4	36.6	68
Credit more than 1 month	9.7	1.1	6.9	4.4	1.5	13.7	2.9	5.4	10
Other	3.2	0.0	4.2	0.0	0.0	5.9	0.0	1.6	3
Total number (n)	93	93	72	114	65	51	70		186

Own survey. – 1 Multiple answers. Two respondents did not answer this question and three respondents reported having no customers (latter included in n). – 2 Multiple answers. 11 respondents did not answer this question; 20 business services firms have no suppliers and three respondents did not know (both included in n). – 3 Quantified from open answers.

Approximately one third of our sample firms gives *credit to customers* or receives credit *from suppliers*. In both cases, trust appears to be very important, with over 85 % of the relevant firms rating trust as ‘important’ or ‘very important’ for this decision, the bias being towards the latter.

However, with regards to customers, not only is the combined percentage of these two ratings higher, but there is also a higher share of ‘very important’ ratings. Perhaps this difference has to do with different perceptions of ‘trusting’ (when the firm is trusting customers) and ‘trustworthiness’ (when the firm is the one being trusted).

Table 22: Importance of trust in offering and receiving credits, %

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Offering credit to customers ¹									
1= very important	78.4	75.0	79.2	75.6	75.0	84.0	70.8	76.8	53
2...	16.2	12.5	16.7	13.3	20.0	12.0	12.5	14.5	10
3...	5.4	6.3	0.0	8.9	5.0	4.0	8.3	5.8	4
4....	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0
5= no importance	0.0	3.1	4.2	0.0	0.0	0.0	4.2	1.4	1
Total number (n)	37	32	24	45	20	25	24		69
Receiving credit from a supplier ²									
1= very important	58.3	67.6	71.4	59.6	66.7	63.0	59.1	63.0	46
2...	22.2	27.0	19.0	26.9	25.0	29.6	18.2	24.7	18
3...	13.9	2.7	9.5	7.7	8.3	3.7	13.6	8.2	6
4....	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0
5= no importance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0
Total number (n)	36	37	21	52	24	27	22		73

Own survey. – 1 Includes only companies that give credits to customers; one respondent did not know (included in n). – 2 Includes only companies that receive credits from suppliers; three respondents did not know (included in n).

Credit Transactions and the Role of Trust

Access to capital does not appear to be restricted for the small enterprises surveyed. A lot of the entrepreneurs had received bank credits, while another 29 % mentioned credits from their family, 15 % from business partners and 10 % from suppliers. This, combined with the low frequency of venture capitalists, confirms the place of own capital and bank credits as the most common forms of financing for German SMEs (cf. Mittelstandsmonitor, 2003). From the trust perspective, the results indicate that German entrepreneurs do not appear to lack trust in banks, while this trust – based on the results in Table 2.5.2 as well as in the case studies – appears to be institutional trust, backed by formal safeguards such as extensive collaterals and detailed contracts. Credits from (and also loans to, see below) the entrepreneurs’ families play a more important role for micro firms, which might be partly explained by the blurred family and enterprise spheres in micro enterprises. Hansch and Piorkowsky (1999, cf. also Piorkowsky 1998) speak of so-called household-enterprise combinations (Haushalts-Unternehmen-Verbünde), drawing attention to the fact that often there is no rigid separation of household and enterprise budgets in very small firms.

With regards to banks, the survey results at a first glance appear to show a *non-restricted access to capital*. However, this interpretation contradicts empirical evidence, showing that SMEs in Germany face considerable problems in obtaining external capital. A recent survey of 5,000 SMEs clearly illustrates this (KfW, 2003). In 2002, 45 % of the surveyed SMEs (32 % in 2001) stated that access to credits has worsened during the last 12 months. Especially East German enterprises (51 %) and, not surprisingly, the construction industry (57 %), as well as smaller

firms (52 % for firms with a turnover less than 1 million Euro) experienced major problems. Most of this is explained by a more restrictive behaviour of banks, which started asking for more transparency concerning business data and strategies. The restructuring in the German banking sector adds to this, as banks have closed down branch offices or they have changed the entrepreneurs' contact person. All this matches evidence from our *cases*, which show that especially East German entrepreneurs evaluate their financial environment negatively.

Table 23: Sources of received capital, %

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Family	26.8	31.2	29.9	28.3	33.3	25.5	27.6	28.9	55
Friends	3.1	3.2	3.9	2.7	6.3	3.9	0.0	3.2	6
Employees	1.0	3.2	2.6	1.8	1.6	3.9	1.3	2.1	4
Customers	2.1	1.1	0.0	2.7	1.6	3.9	0.0	1.6	3
Suppliers	10.3	9.7	6.5	12.4	15.9	13.7	2.6	10.0	19
Business partners	15.5	15.1	6.5	21.2	9.5	23.5	14.5	15.3	29
Previous colleagues	1.0	0.0	0.0	0.9	0.0	2.0	0.0	0.5	1
Banks	72.2	66.7	59.7	76.1	79.4	66.7	64.0	69.6	132
Venture capitalists	4.1	3.2	2.6	4.4	3.2	2.0	5.3	3.7	7
Other	1.0	3.2	1.3	2.7	4.8	0.0	1.3	2.1	4
Total number (n)	97	93	77	113	63	51	76		190

Own survey. Seven respondents did not answer this question; 1–4 in each category did not know (included in n).

While it is not surprising that credit relationships with banks are based on institutional trust relying on formal safeguards, it is interesting to note that even where credits came from an entrepreneur's family, this does not necessarily go hand in hand with personal trust. Most entrepreneurs had to provide collaterals regardless of the credit source, although the origin of the credit did determine the level of collateral. Informal credit sources such as family, friends and employees for the most part asked for less than 50 % of the credit sum. Although the majority of these credits required less than 50 % collaterals, a considerable share also required 100 % collateral. Formal sources generally demanded collateral at more than 50% of the size of the credit.

Table 24: Share of collateral/security by credit source, %

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Family ¹									
all of the loan	12.0	32.0	27.3	17.9	16.7	38.5	15.8	22.0	11
more than half	16.0	16.0	9.1	21.4	11.1	7.7	26.3	16.0	8
less than half	68.0	52.0	59.1	60.7	72.2	46.2	57.9	60.0	30
Total number (n)	25	25	22	28	18	13	19		50

Table 24 (continued): Share of collateral/security by credit source, %

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Friends ²									
less than half	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	5
Total number (n)	2	3	2	3	1	4	1		5
Employees									
all of the loan	100.0	0.0	50.0	0.0	0.0	50.0	0.0	25.0	1
more than half	0	33.3	0.0	50.0	0.0	0.0	100.0	25.0	1
less than half	0	66.7	50.0	50.0	100.0	50.0	0.0	50.0	2
Total number (n)	1	3	2	2	1	2	1		4
Customers ³									
less than half	100.0	100.0	0.0	100.0	100.0	100.0	0.0	100.0	2
Total number (n)	1	1	0	2	1	1	0		2
Suppliers ⁴									
all of the loan	25.0	25.0	25.0	25.0	25.0	0.0	50.0	25.0	4
more than half	12.5	12.5	0.0	16.7	12.5	16.7	50.0	12.5	2
less than half	62.5	37.5	50.0	50.0	37.5	0.0	0.0	50.0	8
Total number (n)	8	8	4	12	8	6	2		16
Business partners ⁵									
all of the loan	16.7	30.8	66.7	18.2	20.0	20.0	30.0	24.0	6
more than half	33.3	15.4	0.0	27.3	20.0	30.0	20.0	24.0	6
less than half	41.7	46.2	33.3	45.5	40.0	50.0	40.0	44.0	11
Total number (n)	12	13	3	22	5	10	10		25
Previous colleagues									
less than half	100.0	0.0	0.0	100.0	0.0	100.0	0.0	100.0	1
Total number (n)	1	0	0	1	0	1	0		1
Banks ⁶									
all of the loan	43.5	63.9	58.7	50.0	46.0	67.6	50.0	53.1	69
more than half	27.5	19.7	15.2	28.6	34.0	17.6	17.4	23.8	31
less than half	20.3	16.4	17.4	19.0	16.0	8.8	28.3	18.5	24
Total number (n)	69	61	46	84	50	34	46		130
Venture capitalists ⁷									
more than half	33.3	50.0	50.0	33.3	100.0	100.0	0.0	40.0	2
less than half	33.3	50.0	50.0	33.3	0.0	0.0	66.7	40.0	2
Total number (n)	3	2	2	3	1	1	3		5
Other ⁸									
all of the loan	50.0	25.0	0.0	30.0	33.3	0.0	33.3	30.0	3
more than half	0.0	37.5	0.0	30.0	50.0	0.0	0.0	30.0	3
less than half	50.0	25.0	0.0	30.0	16.7	0.0	66.7	30.0	3
Total number (n)	2	8	0	10	6	1	3		4

Own survey. Rows consisting only of zeroes have been omitted. – 1 5 respondents that have received a credit from this source did not answer this question, one further one did not know (included in n). – 2 1 respondent did not answer. – 3 1 respondent did not answer. – 4 2 respondents did not answer, 2 did not know. – 5 4 respondents did not answer, 2 did not know. – 6 3 respondents did not answer, 6 did not know. – 7 3 respondents did not answer, 1 did not know. – 8 2 respondents did not answer, 1 did not know.

Interestingly, trust appears to play a dominant role in determining the level of collateral not only for informal sources, but also for bank credits. This is apparent in the fact that the majority of surveyed entrepreneurs state a very important or important role of trust in those cases where creditors asked for less than 100 % collateral, regardless of its source. Especially with regard to bank credits, this finding raises the interesting question regarding how trust has been built. Previous research findings indicate that, as in inter-firm relations, in SME-bank relationships, trust develops over time and gradually diminishes the need to rely on extensive contracts (Saparito, 2000). As German companies commonly have one so called 'house bank', trust-building over time appears to be a likely explanation for the relatively high importance of trust in credit relationships with banks for our sample companies.

Table 25: Role of trust in case of less than 100 % security, %
(scale from 1 = very important to 5 = not at all important)

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Family									
1 = very important	85.7	88.2	86.7	87.0	86.7	100.0	81.3	86.8	33
2	4.8	5.9	13.3	0.0	0.0	0.0	12.5	5.3	2
3	9.5	0.0	0.0	8.7	6.7	0.0	6.3	5.3	2
Total number (n)	21	17	15	23	15	7	16		38
Friends									
1 = very important	100.0	0.0	50.0	33.3	50.0	0.0	0.0	40.0	2
2	0.0	100.0	50.0	66.7	0.0	100.0	0.0	60.0	3
Total number (n)	2	3	2	3	4	1	0		5
Employees									
1 = very important	0.0	66.7	0.0	100	0.0	0.0	100	66.7	2
2	0.0	33.3	100	0.0	0.0	0.0	0.0	33.3	1
Total number (n)	0	3	1	2	1	1	1		3
Customers									
1 = very important	100	0.0	0.0	50.0	100	0.0	0.0	50.0	1
2	0.0	100	0.0	50.0	0.0	100	0.0	50.0	1
Total number (n)	1	1	0	2	1	1	0		2
Suppliers									
1 = very important	66.7	75.0	50.0	75.0	75.0	60.0	100.0	70.0	7
2	16.7	0.0	0.0	12.5	0.0	20.0	0.0	10.0	1
3	0.0	25.0	0.0	12.5	25.0	0.0	0.0	10.0	1
4	16.7	0.0	50.0	0.0	0.0	20.0	0.0	10.0	1
Total number (n)	6	4	2	8	4	5	1		10
Business partners									
1 = very important	77.8	75.0	100	75.0	100	75.0	66.7	76.5	13
2	22.2	12.5	0.0	18.8	0.0	25.0	16.7	17.6	3
3	0.0	12.5	0.0	6.3	0.0	0.0	16.7	5.9	1
Total number (n)	9	8	1	16	3	8	6		17
Previous colleagues									
1 = very important	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0
2	100	0.0	0.0	100	0.0	100	0.0	0.0	1
Total number (n)	1	0	0	1	0	1	0		1

Table 25 (continued): Role of trust in case of less than 100 % security, %
(scale from 1 = very important to 5 = not at all important)

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Banks									
1 = very important	60.6	22.7	46.7	45.0	52.0	55.6	33.3	45.5	25
2	15.2	54.5	20.0	35.0	16.0	33.3	47.6	30.9	17
3	24.2	4.5	26.7	12.5	24.0	0.0	14.3	16.4	9
4	0.0	4.5	0.0	2.5	0.0	11.1	0.0	1.8	1
5 = no importance	0.0	4.5	0.0	2.5	4.0	0.0	0.0	1.8	1
Total number (n)	33	22	15	40	25	9	21		55
Venture capitalists									
1 = very important	100	50.0	100	50.0	100	0.0	100	75.0	3
2	0.0	50.0	0.0	50.0	0.0	100	0.0	25.0	1
Total number (n)	2	2	2	2	1	1	2		4
Other									
1 = very important	100	60.0	0.0	66.7	50.0	0.0	100	66.7	4
2	0.0	40.0	0.0	33.3	50.0	0.0	0.0	33.3	2
Total number (n)	1	5	0	6	4	0	2		6

Own survey. Rows consisting only of zeroes have been omitted. In each category 7–9 respondents who provided less than 100 % collateral did not answer this question. In the categories ‘family’ and ‘banks’ one and two respondents, respectively, did not know (included in n).

Where loans are concerned, most entrepreneurs had lent money to employees (especially in business services, probably reflecting a different and modern ‘corporate culture’, compared to trade and the food industry), followed by customers, family members and business partners (especially in micro business, reflecting their need to establish closer links beyond their enterprise).

Table 26: Credits given, %

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Family	9.1	11.7	13.0	8.6	10.9	9.8	10.3	10.4	20
Friends	9.1	7.4	10.4	6.9	7.8	5.9	10.3	8.3	16
Employees	28.3	26.6	15.6	35.3	18.8	29.4	33.3	27.5	53
Customers	11.1	12.8	7.8	14.7	18.8	9.8	7.7	11.9	23
Suppliers	3.0	2.1	0.0	4.3	4.7	2.0	1.3	2.6	5
Business partners	10.1	8.5	10.4	8.6	10.9	7.8	9.0	9.3	18
Previous colleagues	3.0	0.0	2.6	0.9	1.6	2.0	1.3	1.6	3
Other	1.0	0.0	1.3	0.0	1.6	0.0	0.0	0.5	1
Total number (n)	99	94	77	116	64	51	78		193

Own survey. Four respondents did not answer this question. Two to four respondents in each category did not know (included in n).

With respect to the *governance of credit arrangements*, written contracts dominate regardless of the status of and the relationship to the creditor/debtor. Only a negligible minority rely on oral

agreements, and even less do not conclude any agreement at all. A considerably larger share of West German than East German firms (28 % West, 13 % East) use oral agreements, which appears to indicate the long(er)-standing (business) relationships in the West. Moreover, there is a pronounced tendency for trade firms and micro firms to use more informal credit agreements (i.e., no or oral agreements). For micro firms, this is partly explained by the important role family credits play. Not surprisingly, informal credit relations, such as credits to/from family or friends, are more often regulated informally. However, even in these cases, most entrepreneurs use written agreements.

Table 26: Type of agreement, %

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Family ¹									
No agreement	3.4	19.4	11.1	12.1	4.8	0.0	24.0	11.7	7
Oral agreement	27.6	12.9	25.9	15.2	9.5	42.9	16.0	20.0	12
Written agreement	65.5	67.7	63.0	69.7	85.7	57.1	56.0	66.7	40
Total number (n)	29	31	27	33	18	8	14		60
Friends									
Oral agreement	18.2	25.0	44.4	0.0	0.0	33.3	37.5	21.1	4
Written agreement	81.8	75.0	55.6	100.0	100.0	66.7	62.5	78.9	15
Total number (n)	11	8	9	10	8	3	8		19
Employees									
Oral agreement	28.6	3.8	8.3	19.0	23.1	20.0	11.5	16.7	9
Written agreement	71.4	96.2	91.7	81.0	76.9	80.0	88.5	83.3	45
Total number (n)	28	26	12	42	13	15	26		54
Customers ¹									
No agreement	16.7	9.1	16.7	11.8	9.1	16.7	16.7	13.0	3
Oral agreement	25.0	0	16.7	11.8	9.1	16.7	16.7	13.0	3
Written agreement	50.0	90.9	66.7	70.6	81.8	50.0	66.7	69.6	16
Total number (n)	12	11	8	17	11	6	6		23
Suppliers									
No agreement	15.4	0.0	25.0	5.6	0.0	25.0	0.0	9.1	2
Oral agreement	15.4	22.2	25.0	16.7	27.3	12.5	0.0	18.2	4
Written agreement	69.2	77.8	50.0	77.8	72.7	62.5	100.0	72.7	16
Total number (n)	13	9	4	18	11	8	3		22
Business partners									
No agreement	4.5	5.0	0.0	6.3	8.3	0.0	6.3	4.8	2
Oral agreement	4.5	0.0	0.0	3.1	0.0	7.1	0.0	2.4	1
Written agreement	90.9	95.0	100.0	90.6	91.7	92.9	93.8	92.9	39
Total number (n)	22	20	10	32	12	14	16		42
Previous colleagues									
No agreement	25.0	0.0	50.0	0.0	0.0	50.0	0.0	25.0	1
Written agreement	75.0	75.0	50.0	100.0	100.0	50.0	100.0	75.0	3
Total number (n)	4	0	2	2	1	2	1		4

Table 26: Type of agreement (continued)

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services		
								%	no
Banks ¹									
No agreement	1.4	0.0	2.2	0.0	0.0	2.9	0.0	0.8	1
Oral agreement	1.4	3.2	4.3	1.2	2.0	0	4.2	2.3	3
Written agreement	95.7	96.8	91.3	98.8	98.0	94.1	95.8	96.2	127
Total number (n)	70	62	48	86	50	34	48		132
Venture capitalists									
Written agreement	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	6
Total number (n)	4	2	2	4	2	1	3		6
Other									
Written agreement	100.0	100.0	100.0	100.0	100.0	0.0	100.0	100.0	4
Total number (n)	2	2	1	3	3	0	1		4

Own survey. Rows consisting only of zeroes have been omitted. Two to six respondents in each category did not answer this question. – 1 One respondent did not know (included in n).

Cooperation with Other Enterprises

Less than half (43 %) of our total sample are engaged in *co-operation*. These are notably less common in the food industry than in the other two sectors. The explanation is that the extent of co-operation in the food industry sector in general is very small, as has been found in a study conducted in North-Rhine Westphalia (NEW.S, 2001). Co-operation was normally initiated by the respondent him/herself or by a regular business partner. This reflects the general ‘business-only’ orientation of both East and West German firms, as shown in the case studies. The role of family, friends and previous colleagues in this context appears to be negligible. This finding also underlines the importance of business-related social networks.

‘Informal’ *co-operation types* (exchange of advice, information and support) are the most common ones. From the more ‘formal’ co-operation types, marketing and sales, as well as purchasing, appear to be the most important ones. Purchasing especially is a very frequent form of co-operation in the food industry and trade, whereas it has little relevance to business services, where suppliers often play a lesser role. These results appear to support the results of other empirical studies on SME cooperation, which have found sales-oriented motives to be the most common ones for inter-firm cooperation¹ Moreover, often the main cooperation motive – especially in East Germany – is not business growth but defending the obtained market position against large firms (Nuissl, 2001). In general, small businesses tend more towards ‘formal’ co-operation forms than do micro enterprises.

¹ E.g. Menrad, 2001; however, these studies have probably not considered the exchange of information and advice as a form of cooperation

Table 27: Cooperation with other businesses or entrepreneurs and the initiator of cooperation, %

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Surveyed firms engaged in cooperations ¹									
Yes	41.0	44.2	39.7	44.4	25.8	49.0	52.6	42.6	83
No	59.0	55.8	60.3	55.6	74.2	51.0	47.4	57.4	112
Total number (n)	100	95	78	117	66	51	78		195
Initiator of cooperation ²									
Respondent him-/herself ³	75.6	85.7	80.6	80.8	76.5	76.0	85.4	80.7	67
Regular business partners	58.5	66.7	64.5	61.5	64.7	48.0	70.7	62.7	52
Employees	24.4	21.4	16.1	26.9	23.5	8.0	31.7	22.9	19
Previous colleagues	14.6	16.7	12.9	17.3	11.8	8.0	22.0	15.7	13
Family and friends	9.8	11.9	6.5	13.5	29.4	8.0	4.9	10.8	9
Other	12.2	2.4	6.5	7.7	0.0	12.0	7.3	7.2	6
Total number (n)	41	42	31	52	17	25	41		83

Own survey. – 1 Two respondents did not answer this question. – 2 Includes only firms that cooperate. – 3 Three respondents did not know (included in n).

Table 28: Types of cooperation, %

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Exchange of information	85.4	76.2	83.9	78.8	64.7	92.0	80.5	80.7	67
Advice and support	92.7	64.3	77.4	78.8	76.5	80.0	78.0	78.3	65
Marketing or sales	51.2	50.0	38.7	57.7	52.9	60.0	43.9	50.6	42
Purchasing	63.4	35.7	51.6	48.1	76.5	72.0	24.4	49.4	41
Personnel (incl. training)	41.5	47.6	35.5	50.0	41.2	56.0	39.0	44.6	37
Production	24.4	47.6	38.7	34.6	35.3	36.0	36.6	36.1	30
R&D	26.8	35.7	19.4	38.5	29.4	16.0	41.5	31.3	26
Total number (n)	41	42	31	52	17	25	41		83

Own survey. Multiple answers. Includes only firms that co-operate. Two respondents did not know (included in n).

Co-operation partners are mostly local or domestic. Firms in the food industry most commonly have local partners, those in trade have non-local domestic partners and those in business services both local and other domestic partners. Moreover, business-service firms cooperate comparatively more often with foreign partners. Micro businesses co-operate slightly more often locally, whereas small businesses have their co-operation partners in the domestic regions at large. Almost all foreign co-operation is by small firms. An interesting point is that East German firms substantially more often have West German partners than the other way around. This apparently reflects that East German firms have a greater need for 'local' partners to access the West German market due to their smallness and lack of brands (lack of trust in their products), as is discussed by one of our case-study interviewees (case #6). In a study of cooperation behaviour of East German IT firms, Nuissl et al. (2002) found that the co-operation experiences of

these firms were significantly more often negative than positive. However, there was no considerable difference between co-operation with East and West German businesses.

The *importance of co-operative relationships* is high for slightly more than half of the co-operating firms. For most of the remaining companies co-operation appears to be of little importance, while only very few reported them being not at all important. Co-operation is on average more important for firms in the food industry and trade, as well as for East German companies. The most highly valued forms of co-operation are marketing and sales, as well as personnel, followed by R&D and production. Thus, it appears that the presumably ‘formal’ co-operation forms are valued higher than the ‘informal’ ones. On average, co-operation seems to be more important for firms in trade and the food industry as well as for East German companies. The regional difference, which exists within all sectors, might point to the need for more cooperation in East Germany in order to defend market positions against competition from (West German) large businesses (see Nuissl et al., 2002).

Table 29: Geographical location of cooperation partners, %

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Same region	68.3	71.4	74.2	67.3	94.1	44.0	75.6	69.9	58
West Germany	80.5	59.5	67.7	71.2	76.5	84.0	58.5	69.9	58
East Germany	24.4	83.3	45.2	59.6	29.4	52.0	65.9	54.2	45
Western Europe	26.8	4.8	9.7	19.2	11.8	20.0	14.6	15.7	13
Eastern Europe	7.3	9.5	3.2	11.5	5.9	4.0	12.2	8.4	7
Overseas	7.3	9.5	3.2	11.5	5.9	0.0	14.6	8.4	7
Total number (n)	41	42	31	52	17	25	41		83

Own survey. Multiple answers. Includes only firms that co-operate.

Table 30: Importance of cooperation relationships, %

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Very important	51.2	59.5	51.6	57.7	58.8	64.0	48.8	55.4	46
Little importance	46.3	38.1	45.2	40.4	35.3	32.0	51.2	42.2	35
Of no importance	2.4	2.4	3.2	1.9	5.9	4.0	0.0	2.4	2
Total number (n)	41	42	31	52	17	25	41		83

Own survey. Includes only firms that cooperate.

The *form of regulation in co-operation* is almost as often an oral as it is a written agreement. There are little variations across regions, sectors or sizes. The factor determining the form of regulation appears to be the nature of co-operation. Not surprisingly, ‘formal’ cooperation forms (R&D, personnel, marketing and sales) often go hand in hand with written contracts, whereas more ‘informal’ co-operation activities such as exchange of information and support, are usually regulated orally. Moreover, the ‘formal’ cooperation forms were in general valued higher than the ‘informal’ ones. Thus, these results seem to support the general assumption of prudent governance decisions (Sztompka, 1999) – when the stakes grow higher, the actors become more careful and the frequency of formal contracts increases. This, on the other hand, underlines the importance of institutional trust – when the stakes grow, personal and collective trust apparently lose, while institutional trust gains importance.

Furthermore, 41 % of all respondents would not accept a non-written agreement under any circumstances, whilst nearly two thirds would accept this if the business partner was a friend or a regular business partner. Although contracts are not necessarily primarily safeguards (Klein Woolthuis et al., 2002; see also 0), the fact that written agreements are valued so much does indicate a high level of institutional trust in the German business environment. As was the case with the governance of customer and supplier relations, East German and small firms more often insist on written agreements in their co-operation. On the other hand, also friendship and the regularity of the business relation played a more important role for East German than West German enterprises. This could also point to the need for long-term co-operative relations as a means to maintain the current market position (see Nuisssl et al., 2002). Therefore especially personal trust, manifested in friendship and the regularity of customer relations, would play a particularly important role.

Not surprisingly, micro firms rely on personal trust more often than small enterprises, which tend to insist on written agreements. Also, membership in the same business association, an indicator of collective trust, was more often mentioned by micro firms. This particular category also played a clearly more important role in the food industry than in the other two sectors. Somewhat surprisingly, recommendations from trusted persons play only a minor role in this context. They are comparatively more important in the business services sector, where trust-based relations appear to play a special role, as was found in the case studies (see e.g. case #12).

Table 31: Types of regulation and bases for using a verbal agreement, %

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Types of regulation ¹									
No regulation	9.8	0.0	6.5	3.9	12.5	4.0	2.4	4.9	4
Oral agreement	43.9	48.8	45.2	47.1	43.8	44.0	48.8	46.3	38
Written contract	46.3	51.2	48.4	49.0	43.8	52.0	48.8	48.8	40
Total number (n)	41	41	31	51	16	25	41		82
Would use a verbal agreement if the business partner... ²									
is a friend	33.3	39.0	48.3	29.4	43.8	28.0	38.5	36.3	29
is a regular customer/ supplier	25.6	36.6	34.5	29.4	37.5	12.0	41.0	31.3	25
is a member of the same business association	12.8	9.8	17.2	7.8	18.8	12.0	7.7	11.3	9
was recommended by someone whom the respondent trusts	10.3	9.8	10.3	9.8	6.3	4.0	15.4	10.0	8
other reason	7.7	0.0	3.4	3.9	6.3	0.0	5.1	3.8	3
<i>under no circumstances</i>	38.5	43.9	34.5	45.1	31.3	56.0	35.9	41.3	33
Total number (n)	39	41	29	51	16	25	39		80

Own survey. – 1 Includes only firms that co-operate; one of them did not answer this question. – 2 Multiple answers. Includes only firms that co-operate; three of them did not answer this question.

Intra-Organisational Relationships

A little less than half of all surveyed firms, and especially small enterprises, had *managers* in addition to the owner-manager. Business-service firms appear to have managers more often than companies in the other sectors. However, there are also comparatively more small enterprises in the business-service sample. Most managers are *responsible for* sales and marketing or technology, followed by personnel and financial management. Strategic development appears to be more often the responsibility of the owner-manager(s). Not surprisingly, there are large sectoral differences in this context. Perhaps the most notable one is the very high frequency of sales and marketing in the trade sector.

Table 32: Managers, their areas of responsibility and the entrepreneur's trust in managers, %

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Managers besides the entrepreneur him/herself									
Yes	46.1	49.5	27.8	61.0	45.5	43.1	52.5	47.7	94
No	53.9	50.5	72.2	39.0	54.5	56.9	47.5	52.3	103
Total number (n)	102	95	79	118	66	51	80		197
Areas of responsibility ¹									
Marketing and sales	64.4	54.3	61.9	58.6	53.6	81.8	51.2	59.3	54
Technology	48.9	56.5	52.4	52.9	50.0	31.8	65.9	52.7	48
Personnel	57.8	41.3	38.1	52.9	60.7	36.4	48.8	49.5	45
Finance	53.3	43.5	38.1	51.4	42.9	54.5	48.8	48.4	44
Strategic development	48.9	32.6	57.1	35.7	39.3	45.5	39.0	40.7	37
Operations management incl. logistics ²	20.0	17.4	14.3	20.0	28.6	13.6	14.6	18.7	17
Other	2.2	0.0	4.8	0.0	0.0	0.0	2.4	1.1	1
Total number (n)	45	48	21	70	28	22	41		91
Trust in managers ¹									
1 = absolutely	66.7	63.0	76.2	61.4	60.7	68.2	65.9	64.8	59
2 = ...	22.2	28.3	14.3	28.6	32.1	18.2	24.4	25.3	23
3 = ...	8.9	6.5	9.5	7.1	7.1	9.1	7.3	7.7	7
4 = ...	0.0	2.2	0.0	1.4	0.0	0.0	2.4	1.1	1
5 = not at all	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0
Total number (n)	45	46	21	70	28	22	41		91

Own survey. – 1 Multiple answers. Includes only firms with managers; three of them did not answer this question. Individual categories contain 1–4 “do not know” answers (included in n). – 2 Quantified from open answers.

In order to really analyse the trust involved in the delegation of responsibilities to managers, we would also need information on the value of the particular responsibilities for the business. The case studies in fact show that the entrepreneurs often restrict the managers' and employees responsibilities by assigning them specific tasks (e.g. responsibility for a customer account or purchasing) and requiring more important decisions (usually when higher sums of money are involved) to be agreed with him/her. This also appears consistent with the assumption that when the stakes grow higher, the amount of control increases. Nevertheless, two thirds of the sur-

veyed entrepreneurs stated that they absolutely *trust* their managers to act in their interests. Thus, perhaps the need to increase control when the stakes grow higher is caused instead by a lack of competence trust than by the fear of opportunism. Evidence to support this assumption is available in the case studies (see e.g. case #11). This also underlines the importance of distinguishing between different objects of trust with respect to the behaviour of the trustee, such as ability, benevolence and dedication (Nooteboom, 2002).

Trust also plays a role in *selecting employees*. Although the majority of entrepreneurs state that the recruitment of employees is based on ‘formal’ criteria – qualifications, professional experience, and motivations, more than half of them also mentioned recommendations and another third personal knowledge of employees. Both of these can be understood as ‘informal’ criteria that manifest personal trust, and both of them play a more important role for East German entrepreneurs.

Table 33: Criteria used in choosing employees and trust in employees, %

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Criteria used in choosing employees ¹									
Professional experience	95.0	91.5	92.2	94.1	93.9	92.2	93.6	93.4	182
Motivation	87.0	87.4	84.4	89.0	89.4	90.2	83.3	87.2	170
Education, skills level	87.0	85.2	84.4	87.3	90.9	82.3	84.6	86.1	168
Recommendations	74.0	74.7	66.2	79.7	81.8	70.6	70.5	74.4	145
I know future employees	62.0	61.0	55.9	65.3	65.1	56.9	61.5	61.6	130
Age	36.0	41.1	32.5	42.3	51.5	33.3	30.8	38.4	75
Gender	15.0	20.0	15.6	18.6	25.8	19.6	9.0	17.4	34
Personal impression ²	14.0	14.7	7.8	18.6	19.7	11.8	11.5	14.4	28
Other	10.0	11.6	11.7	10.2	12.1	9.8	10.3	10.8	21
Total number (n)	100	95	77	118	66	51	78		195
Trust in employees ³									
1 = absolutely	30.3	25.0	37.8	21.4	13.8	32.0	36.8	27.7	53
2 = ...	37.4	45.7	33.8	46.2	41.5	38.0	43.4	41.4	79
3 = ...	29.3	27.2	24.3	30.8	40.0	28.0	18.4	28.3	54
4 = ...	0.0	2.2	0.0	1.7	1.5	0.0	1.3	1.0	2
5 = not at all	3.0	0.0	4.1	0.0	3.1	2.0	0.0	1.6	3
Total number (n)	99	92	74	117	65	50	76		191

Own survey. – 1 Multiple answers. Two respondents did not answer this question. Both “yes” and “partly” answers are included in the figures. – 2 Quantified from open answers. – 3 Six respondents did not answer this question.

However, two points need to be considered when interpreting the results. First, personal knowledge and recommendations are also a means of communicating qualifications, professional experience and motivations. Thus, these categories overlap at least partially. For more detailed information on institutional and collective trust in this context we would need to know how else qualifications, experience and motivations are communicated. For example, a formal application with diplomas and letters of reference would refer to institutional trust (trust in institutions issuing diplomas that convey qualifications) and collective trust (letters of reference also include the

reputation of the previous employer). Second, there might be a bias towards the three ‘formal’ criteria due to their positive connotation (compare the problem of ‘socially desirable answers’ in Nuissl et al., 2002).

Hence, we can only conclude that personal trust in the form of recommendations and personal knowledge appears to play an important role when hiring employees. The importance of personal trust in intra-firm relations in general is confirmed by the case-study evidence. Although a few firms use working-time control systems or statistical performance control, in general intra-firm relations appear informal and personal-trust based. This shows also in the high level of *trust in employees* reported by the surveyed entrepreneurs. Approximately 80 % trust their employees (absolutely) to work effectively even when not supervised. Trust in employees is higher in business services. This is probably another indicator of a modern ‘corporate culture’ where employees play a different role compared to other sectors. For instance, as shown in the case studies, employees in business services play an important role in maintaining customer relationships.

Institutional and Social Environment

The fact that only 44 % of our sample companies are *members of a business association or chamber*, the latter of which is obligatory in Germany, is the result of an error in the coding of the electronic questionnaire used in the telephone interviews. Therefore, approximately 30 % of the respondents did not answer this question at all. Previous research assigns an important role to business associations, which includes chambers, in the German institutional environment (e.g. Lane, 1997; Bachmann, 2001). However, for the interviewed entrepreneurs, being a member in these organisations appears to play only a minor role. Only about a quarter assigned great importance to it, while an equal amount reported that membership had no importance at all. Interestingly, this differs across regions and enterprise size. East German companies value their business association membership higher than do West German firms, although in both regions a considerable number of firms also think their membership is not important at all. Moreover, small businesses (especially East German ones) value their membership more than micro firms. These differences also exist within the sectoral samples.

The case-study evidence shows that the role of business associations and chambers depends to a large extent on the sector and market characteristics. For example, in the food industry the chambers seem to play a relatively important role, especially because of the apprentice system, but also as sources of information and advice. This reflects the crafts background of many firms in this sector, with membership being mandatory in chambers of craft. On the other hand, chambers have only a minor role in business services, where in some cases business associations provide an important forum of networking. More networking possibilities – chances to build personal trust – organised by chambers and associations would be welcome to the entrepreneurs (see e.g. cases #4 and #6).

Business associations and regular business partners are the most important sources entrepreneurs draw on in case they need *assistance and advice*. This indicates a significant role for both personal and collective trust. In this context the important role of chambers and business associations in the German environment also becomes manifest (see Lane, 1997; Bachmann, 2001). Food-industry respondents especially seemed to rely on chambers and associations. Besides these two sources of support, private consultants and solicitors, family and friends as well as employees also appear to play an important role. Thus institutional trust also seems to be a factor in this context. Case study results indicate that the sources of assistance and advice tend to be different in different stages of business development. One case-study interviewee, engaged in auditing and tax consulting (case #12), explicitly said that firms tend to use more ‘formal’ support sources as they grow. This behaviour does not imply a lack of personal trust, nor does it refer to increasing institutional trust. Instead, it describes a typical ‘strategic’ behaviour where

business founders first of all try to use their own information and those types of assistance that are easily accessible, and only in later stages of business development do they turn to professional help (cf. Welter, 2002).

Table 34: Membership and assessed value of the membership, %

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Membership ¹									
Yes	64.4	63.5	56.9	69.2	65.7	69.2	59.7	64.0	87
No	32.9	36.5	41.4	29.5	34.3	30.8	37.1	34.6	47
Total number (n)	73	63	58	78	35	39	62		136
Assessed value of the membership for the success of business ²									
No importance	23.9	27.5	31.3	22.2	9.1	29.6	32.4	25.6	22
Little importance	56.5	40.0	56.3	44.4	59.1	44.4	45.9	48.8	42
Great importance	19.6	32.5	12.5	33.3	31.8	25.9	21.6	25.6	22
Total number (n)	46	40	32	54	22	27	37		86

Own survey. – 1 Due to an error in the electronic questionnaire 61 respondents did not answer this question; two further ones did not know (included in n). – 2 Includes only firms that are members of a business association; one of them did not answer this question.

Small businesses seem to use the whole scale of support sources, whereas micro enterprises rely more on sources based on personal and collective trust. Family and friends especially play a more important role for micro firms than for small ones. Family and friends are clearly also a more common source of assistance and advice in the food industry than in the other sectors. Apart from this, and the already mentioned very high frequency of membership of chambers and business associations in the food industry, the sectoral differences are rather small. In regional terms, East German businesses clearly turn to regular business partners more often than their West German counterparts. This is consistent with the other results of the survey, which indicate that regular business relations have an especially high significance for East German firms. One reason given for this is that East German businesses need to cooperate more in order to maintain their current market position against competition from large (West German) companies (see Nuissl et al., 2002).

When the entrepreneurs surveyed experience *problems with their business partners*, the majority of them turn to solicitors and consultants. Also courts, mutual business partners, as well as chambers and business associations, play a role in this context, albeit less than the one played by solicitors and consultants. All of this indicates a high level of institutional trust in Germany. Even the food industry sector, which regulates most informally, uses lawyers and consultants almost as often as do the other sectors. However, the case studies show that although most entrepreneurs would turn to a solicitor or consultant eventually, they would only do it as a very last resort when all informal methods had failed. This supports Lane's (1997) finding that despite the highly formalised systems of regulation in Germany, 'these formal systems have not superseded informal control.' Hence, despite having been mentioned by 65 % of the surveyed entrepreneurs, solicitors and consultants are seldom consulted in the *first* instance when problems with business partners emerge. In fact, some entrepreneurs even expressed an explicit distrust of solicitors and consultants (see e.g. case #5).

The regional differences in this context are small and the only notable size-related difference is, as one would expect, that small firms use more often formal legal assistance than micro enterprises. There are, however, two notable sectoral differences. First, the food industry clearly uses

chambers and business associations more often, which is consistent with the discussion in this chapter so far. Second, mutual business partners seem to be particularly important in trade. This was also the case, yet to a lesser extent, with regard to the sources of general assistance and advice.

Table 35: Sources of assistance and advice and the role of trust in general business problems, %

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Sources of assistance and advice ¹									
Regular business partners	45.8	69.7	48.0	63.6	51.6	64.6	57.3	57.3	106
Business associations, Chambers of Commerce	63.5	50.6	45.3	65.5	80.6	45.8	45.3	57.3	106
Private consultants, lawyers	35.4	42.7	28.0	46.4	35.5	41.7	40.0	38.9	72
Family and friends	35.4	33.7	40.0	30.9	58.1	25.0	21.3	34.6	64
Employees	26.0	27.0	18.7	31.8	29.0	22.9	26.7	26.5	49
Authorities	25.0	25.8	22.7	27.3	32.3	12.5	28.0	25.4	47
Business development agencies	17.7	29.2	9.3	32.7	33.9	18.8	17.3	23.2	43
Other	11.5	2.2	8.0	6.4	6.5	8.3	6.7	7.0	13
Total number (n)	96	89	75	110	62	48	75		185
Importance of trust in choosing the source ²									
1 = absolutely	45.8	51.7	45.3	50.9	53.2	56.3	40.0	48.6	90
2 = ...	25.0	32.6	25.3	30.9	30.6	27.1	28.0	28.6	53
3 = ...	13.5	5.6	9.3	10.0	12.9	4.2	10.7	9.7	18
4 = ...	1.0	1.1	2.7	0.0	1.6	0.0	1.3	1.1	2
5 = not at all	3.1	2.2	5.3	0.9	0.0	4.2	4.0	2.7	5
Total number (n)	96	89	75	110	62	48	75		185

Own survey. – 1 Multiple answers. 12 respondents did not answer this question; individual categories contain 1–3 “do not know” answers (included in n). – 2 12 respondents did not answer this question; 13 respondents have not used assistance or advice in general business problems and four further respondents did not know (both included in n).

The *main constraints at start-up* reflect the prevailing macroeconomic conditions, as well as the heavily regulated business environment in Germany, as these were the main problems mentioned by the entrepreneurs surveyed. The macroeconomic conditions have been especially unfavourable to small businesses in the past three years (Mittelstandsmonitor, 2003). The number and opaqueness of regulations were also mentioned as a major problem in the institutional environment in the case studies. The same result was also found in the German Global Entrepreneurship Monitor (Sternberg and Bergmann, 2003). Furthermore, the complexity of the tax system was pointed out as a problem both in the Global Entrepreneurship Monitor as well as in our case studies. East German firms indicated the macroeconomic situation and regulations to be a problem clearly more often than did West German companies. Also in the case studies, East German entrepreneurs showed a more negative attitude towards authorities and regulations. One explanation might be, as argued in other studies, that public institutions in general are trusted less in East Germany (Meier, 1996; Grix, 1999). On the other hand, this argument does not ap-

pear to be supported in the case studies. East German businesses have to cope with a worse macroeconomic situation than their West German counterparts (Nuissl et al., 2002), which explains why this problem was mentioned more often in the East. With regard to sectoral differences, it is not surprising that a large share of food industry firms mentioned regulations-related problems due to the nature of business in this sector. The comparatively worse sectoral economic situation in trade is also reflected in our results (cf. Mittelstandsmonitor, 2003).

Table 36: Support sources if problems with business partners are experienced, %

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Solicitors, consultants	61.2	68.1	59.7	67.8	58.7	66.7	67.9	64.6	124
Court	32.7	35.1	37.7	31.3	23.8	39.2	38.5	33.9	65
Mutual business partners	30.6	25.5	27.3	28.7	23.8	39.2	24.4	28.1	54
Chamber of commerce, business association	22.4	18.1	16.9	22.6	30.2	13.7	16.7	20.3	39
Mutual relatives and friends	2.0	7.4	5.2	4.3	4.8	7.8	2.6	4.7	9
Arbitrary court	3.1	3.2	2.6	3.5	4.8	3.9	1.3	3.1	6
Other	5.1	3.2	3.9	4.3	3.2	5.9	3.8	4.2	8
Total number (n)	98	94	77	115	63	51	78		192

Own survey. Multiple answers. Five respondents did not answer this question; individual categories contain 1–3 “do not know” answers (included in n).

Concerning the other constraints, search for market and capital appear to have been common problems, while the remaining constraints featured in the questionnaire (e.g. information, personnel, or equipment) seem to have played a less important role. Search for market was most common in business services and among East German firms (46 % of which are in the business services sector). On the other hand, the business services sector less often had problems with capital and finance, which is not really surprising given the generally lower capital requirements of firms in this sector. Similar reasoning would at least partly explain the fact that trade firms have had very few problems with equipment.

Capital was more often a problem for East German entrepreneurs. This partly reflects the unfavourable macroeconomic situation, but also partly the fact that bank financing has become more difficult to acquire after the early 1990s ‘after-unification enthusiasm’ (described as such by an East German case-study interviewee, see case #6) when banks lost a lot of money, especially in spectacular bankruptcies such as the ‘Schneider’ case in Leipzig. Furthermore, private banks have largely withdrawn from financing start-ups, leaving the business to savings banks (Sparkasse) and people’s banks (Volksbank) (Sternberg and Bergmann, 2003; Welter et al., 2003). Personnel has particularly been a problem in the food sector.

Just over a third of the surveyed entrepreneurs looked for *outside help*, while 37% (especially business-service firms) did not use any outside assistance in dealing with problems at start-up. In this context, when asked whether trust played a role in deciding whether or not to turn to assistance, most entrepreneurs did not emphasise this. Interestingly, most of the entrepreneurs who did indicate that trust played a role were East German. Perhaps this reflects the distrust towards consultants that was expressed in East German case studies (e.g. case #5), which could be explained by bad experiences during the early 1990s.

Although the role of trust in deciding whether to seek for outside help or not was not emphasised, the *choice of 'helpers'* indicates that personal trust (at least indirectly) plays a role. Most entrepreneurs turned to regular business partners or family, followed by consultants and employees. In terms of regions, consistent with the other results of this survey business partners are a more important source of support for East than West German firms. Business development agencies play a more important role in East Germany. Interestingly, there is virtually no difference in the use of consultants between micro and small firms, although the argument that micro firms with lesser resources prefer more informal sources would let us assume otherwise. In fact, the small firms seem to use informal sources more often. This may of course be at least partly due to a much larger number of small businesses having used help in the first place. In terms of sectors, the most notable difference is that firms in the food industry often received help from family, but relatively seldom from business partners. In the other two sectors this was the other way around.

Excluding the use of consultants, which commonly indicate institutional trust, all of the main sources of support (in terms of the aggregate sample) hint at personal trust playing the most important role in this context. Thus the sources for assistance at the start of business are more informal than in the case of general business problems or problems with business partners. This supports the argument discussed above that the sources of assistance become more formal as the business develops.

Table 37: Constrains for business development at the start-up stage, %

	Regions		Size		Sectors			Total	
	West Germany	East Germany	Micro business	Small business	Food industry	Trade	Business services	%	no
Constraints for business development ¹									
Macroeconomic environment	36.4	51.1	39.2	46.5	42.9	47.1	41.8	43.5	84
Regulations	29.3	43.6	29.1	41.2	46.0	29.4	32.9	36.3	70
Search for market	23.2	43.6	29.1	36.0	23.8	29.4	43.0	33.2	64
Capital, finance	24.2	37.2	29.1	31.6	33.3	35.3	25.3	30.6	59
Information	26.3	19.1	20.3	24.6	19.0	25.5	24.1	22.8	44
Personnel	19.2	22.3	12.7	26.3	30.2	9.8	20.3	20.7	40
Equipment	10.1	13.8	11.4	12.3	17.5	3.9	12.7	11.9	23
Premises	8.1	14.9	8.9	13.2	12.7	17.6	6.3	11.4	22
Other	2.0	4.3	1.3	4.4	4.8	2.0	2.5	3.1	6
Total number (n)	99	94	79	114	63	51	79		193
Was help taken in coping with these constraints? ²									
Yes	39.4	40.9	26.9	49.1	51.6	33.3	35.4	40.1	77
No	34.3	40.9	43.6	33.3	25.8	39.2	45.6	37.5	72
No constraints reported	19.2	12.9	24.4	10.5	11.3	19.6	17.7	16.1	31
Total number (n)	99	93	78	114	62	51	79		192
If not, did trust play a role in this decision? ³									
Yes	2.9	18.4	11.8	10.5	6.3	10.0	13.9	11.1	8
Partly	2.9	2.6	5.9	0.0	0.0	10.0	0.0	2.8	2
No	94.1	73.7	79.4	86.8	93.8	80.0	80.6	83.3	60
Total number (n)	34	38	34	38	16	20	36		72
If yes, to whom did the entrepreneur turn for help? ⁴									
Business partner	44.7	60.5	47.6	54.5	34.4	70.6	63.0	52.6	40
Family ⁵	50.0	47.4	42.9	50.9	68.8	29.4	37.0	48.7	37
Consultant	44.7	39.5	42.9	41.8	40.6	41.2	44.4	42.1	32
Employee	28.9	36.8	23.8	36.4	37.5	35.3	25.9	32.9	25
Supplier	18.4	28.9	23.8	23.6	31.3	41.2	3.7	23.7	18
Business development agency ⁵	13.2	31.6	28.6	20.0	34.4	17.6	11.1	22.4	17
Friend ⁵	21.1	21.1	14.3	23.6	28.1	23.5	11.1	21.1	16
Previous colleague	23.7	18.4	19.0	21.8	18.8	17.6	25.9	21.1	16
Customer	18.4	21.1	28.6	16.4	18.8	29.4	14.8	19.7	15
Other ⁵	5.3	10.5	4.8	9.1	9.4	0.0	11.1	7.9	6
Total number (n)	38	38	21	55	32	17	27		76
Trust in those providing help ⁶									
Yes	97.4	97.4	95.2	98.2	96.9	100.0	96.3	97.4	74
No	2.6	2.6	4.8	1.8	3.1	0.0	3.7	2.6	2
Total number (n)	38	38	21	55	32	17	27		76

Own survey. – 1 Multiple answers. Four respondents did not answer this question. Individual categories contain 12–15 “did not know” answers (included in n). – 2 Five respondents did not answer this question; 12 respondents did not know (included in n). – 3 Includes only firms that had not accepted help; two of them did not know (included in n). – 4 Multiple answers. Includes only firms that had accepted help; one of them did not answer this question. – 5 Includes a “do not know” answer. – 6 Includes only firms that had accepted help; one of them did not answer this question.

Case Study Report

Profile of the Companies and the Entrepreneurs

Case studies were conducted in a total of 16 firms – eight in both East and West Germany. Three of the interviewed firms are in the food industry, five in trade and seven in business services. Furthermore, there is an additional case study of a craft firm, whose entrepreneur we decided to use as a key expert. The food industry cases include a brewery and two bakeries, the trade cases consist of two book shops, a pet shop and two IT firms, while the interviewed business-service firms are engaged in consultancy, IT, R&D engineering and harbour services. Nine of the case-study firms are small businesses, while seven are micro enterprises. As in the survey sample, most of the East German firms in our case studies were founded around 1990. However, there are two firms that were functional throughout the socialist period and one firm that was established in 2002. The West German firms are mostly established ones, only two of them were founded recently, in 2002/2003. Most of the firms are de-novo start-ups (two of them family businesses in the second or third generation), while only two had been bought.

The interviewees are mostly owner-managers, except for three cases in which managers or an assistant to the managing director were interviewed. The informants are mostly in their 40s and 50s, but the cases include also a few younger entrepreneurs, particularly in the more recently founded businesses. Five interviewees are female, while the remaining eleven are male. All interviewees in business services have a university degree. A university degree is also common in the trade sector, especially in IT trade, whereas the food-industry informants have mostly higher vocational (Meister) degrees. In two cases the educational background of the interviewee is unknown. An overview of the studied firms and entrepreneurs is provided in Table 1 in the Annex, while brief histories of the firms are presented in Tables 2a and 2b.

Inter-Firm Relationships

Characteristics of Customer and Supplier Relations

Customer base. As could be expected, the characteristics of markets served differ significantly between and even within sectors depending on the nature of the business. An overview of customers and market characteristics is provided in Tables 3a and 3b in the Annex. With one exception (case #7), all of the interviewed firms operate almost exclusively in the domestic market. This reflects the strong domestic orientation of German SMEs, as was also indicated by the survey results and previous research (Mittelstandsmonitor, 2003). The firms in the food industry are strongly locally bound, whereas the firms in the other sectors more often serve the domestic or at least regional markets at large. In business services, the firms usually serve a much smaller number of customers than in the other two sectors.

Supplier base. Most case study firms have a relatively small number of suppliers (an overview is provided in Table 11 in the Annex). There seem to be no specific sectoral patterns, but the actual nature of the business appears to determine the number of suppliers. However, in the food industry and trade the use of both large wholesalers as well as small specialist suppliers is typical. The reason for the use of large wholesalers – many firms in fact work only with one – appears to be either convenience (case #5) or speed of deliveries, which is sometimes required by the customers e.g. in book trade (cases #3 and #10). In general, as the survey evidence also indicated, suppliers play a far lesser role in business services than in the other two sectors. In fact suppliers appear to play an important role only in two business-service cases (#8 and #15), whereas their role seems more peripheral for the rest.

Regularity of customer and supplier relations. Most of the interviewed firms have predominantly regular *customers* (see Table 4 in the Annex). The nature of the business and to some extent market characteristics appear to be the main determinants of the regularity rate. For example, in two cases – R&D engineering service (#8) and image consultancy (#13) – the entrepreneurs indicated that they prefer to work with new, previously unknown customers because that way the work stays interesting and one also receives more honest feedback on the creative ideas than from well known customers. Such project-based customer relations are relatively common in business services. This partly explains the lower regularity rate of customer relations found in this sector in the survey. Although there were also business service cases where regular customer relations are vital (cases #12 and #15), regularity plays a more important role in the food industry and trade. On the other hand, *supplier* relations are regular across all sectors (see Table 12 in the Annex). In some cases the basis for regularity was convenience, while in some other cases better conditions and larger discounts, as well as other ‘soft’ benefits of long-term relations, also played a role (see below for more details).

Substitutability of current customers and suppliers. One factor affecting the role of regular customers and suppliers is their substitutability, i.e. how easily the company could acquire an equivalent customer or supplier if one of the current relations were terminated. With regards to *customers*, in a few cases a number of customers were clearly more important than the rest. For example, for the West German provider of harbour services (case #15) ten large corporations generate 60 % of the total turnover, while the rest comes from approximately 150 smaller customers. Such cases usually indicate a high dependence on these customers (see also case #5). Other factors determining substitutability include whether large investments are needed to gain new customers or during the initial phase of a new customer relationship (cases #1, #7 and #12, cf. the notion of asset specificity in Williamson, 1985), if there is low availability of suitable customers in the market (cases #5, #7, #9, #16) or intense competition (case #10). These factors need to be considered when analysing e.g. the governance of customer relations. However, in *supplier* relations substitutability does not appear to be a major problem. In fact only one firm reported a low availability of alternative equivalent suppliers. This is the West German book mail-order company (case #10), which is highly dependent on certain publishers which publish books relevant to the firm’s customers. Although there are rather a lot of these, most of them are concentrated on large parent companies, with which small book shops have a very asymmetric power position. Switching orders to wholesalers is also not a viable option, because the discounts, and thus profit margins, are smaller than when ordering directly from publishers. A summary of information related to the substitutability of current customers and suppliers is provided in Tables 4 and 12 in the Annex.

The role of personal relationships with customers and suppliers. A personal relationship with the *customer* seems to be valued highly across regions and sectors (see Table 6 in the Annex). This is also manifest in how customer relationships are maintained (Table 5). Several firms (e.g. cases #5, #15, #16) reported that the customer always has the same contact person in the firm. This indicates an important role for personal trust as opposed to inter-organisational trust in this context. In some cases the inter-personal relation is so important that the customers follow the person even if s/he changes to work for another firm (see e.g. cases #12, #15 and #16 in Table 7b). The only firm that is extensively engaged abroad (case #7) reported relationship and trust-building being more difficult with foreign than domestic customers. This seems to support Nooteboom’s (2002) notion that the transaction costs of trust-building increase as the cognitive distance to cross grows, which is also one of the reasons why smaller firms often are less export-oriented. The firm has also had bad experiences in Asia in this context. Also relationship maintenance in this case is more personal with domestic than foreign customers. In the case of *suppliers*, personal relationships are important, especially in the food industry and trade (however, most business-service firms did not provide information at all on this topic, but the survey data shows that they often do not have suppliers). In this context especially the sales representa-

tives of the suppliers appear to play an important boundary spanning role (see Table 13 in the Annex).

Personal relations also appeared to be a *mechanism for building (personal) trust*. In the case of the West German auditing firm (#12), which reported very intensive personal relations with customers, communication in the initial phase of a customer relationship is primarily face-to-face, while most of the communication in established relations takes place by phone. This refers to a need to build initial personal trust and a personal relationship by using the most personal communication medium before switching to more impersonal ones. Another example of the trust-building process was provided by the East German production consultant (case #6). His new customer relations usually begin with small engagements involving moderate sums of money. Over time the projects grow larger as the customer sees that the entrepreneur is not 'a mad person', as he described it. These examples underline the importance of previous experiences with the business partner as a primary trust-building mechanism, as is suggested in conceptual literature (e.g. Zucker, 1986) and as was found in our survey, as well as in previous empirical studies (e.g. Nuissl et al., 2002).

However, even though a personal relationship with customers and suppliers was valued highly in many cases, *social contact* with customers is *very seldom*. It was reported only in two West German cases. In one of them (#15) individual employees have sometimes become friends with customers and in the other one (#11) the entrepreneur co-operates informally with some suppliers in the form of information and experience exchange. One East German informant (case #8) said that inviting business partners to social activities used to be more common in East Germany in the early 1990s, but nowadays it would seem 'weird'. This refers to business relations having become more business only in East Germany after the first years after the unification (Koch and Thomas, 1997; Nuissl et al., 2002).

Benefits of long-term customer and supplier relations. Common benefits associated with long-term *customer* relations include easier problem-solving, the ability to serve the customer better and more efficiently, as well as good communication and mutual understanding (see Table 6 in the Annex for an overview). These benefits were reported by most firms across regions, sizes and sectors. Also trust, industry information and receiving recommendations were mentioned. Several firms also indicated that a major advantage of long-term regular customer relations is the predictability of income (cases #5, #9, #10 and #16). These firms operate either in the food industry or trade and invariably reported that their current customers are very difficult to replace. Thus, the market characteristics, as well as the current economic situation, appear to determine the nature of their customer relations, at least in part. Similar benefits were also reported with regards to long-term *supplier* relations. Also, in this context trust, the uncomplicated nature of transactions and industry information were mentioned. However, a particularly important benefit of long-term supplier relations are the better discounts and conditions for deals. Here the personal relationship with the contact persons sometimes plays a role.

Customer acquisition. The most common means of customer acquisition in the survey results were recommendations from existing customer and suppliers, followed by word of mouth via family and friends. Also brochures and advertising in mass media were used by many of the surveyed firms. The former were interpreted as indicators of collective and personal trust, while the latter refer rather to institutional trust. The survey results further indicated that word of mouth is an especially common form of promotion and customer acquisition for East German, food industry and micro firms. The case studies show a general tendency in the food industry and trade sectors to use more 'formal' channels of customer acquisition, including sales reps, trade fairs, advertisements in mass media and direct marketing (see Tables 7a and 7b in the Annex for an overview). These were clearly less common in business services, which – as the survey results indicated – mostly rely on recommendations, reputation and they also often recruit customers in a business association or club context. Furthermore, in several cases (#1, #12, #15, #16) the entrepreneurs had brought customers from their previous jobs to the new firm. Al-

though these cases are not only business services, it was the interviewees in this sector that described it as a typical industry practice, which appears a necessity due to sensitive data within these relations. For example, the informant in the West German auditing firm emphasised that the relationship is always between the auditor and the customer as persons, not between firms.

The role of business associations and clubs in customer acquisition is indispensable for the East German production consultant (case #6). The entrepreneur said that without his engagement as a president of the local branch of a well-known business association, he would have a serious credibility problem with his West German customers (all of his customers are West German). Moreover, he went on to generalise that business associations and business clubs are the most important forum of customer acquisitions for consultants and solicitors. This is yet another indicator of the important role of personal trust in business services in general and consultancy in particular. Although recommendations and reputation also play a role in food industry and trade, there does not seem to be such a need for personal contact in customer recruitment as in business services. In sum, it appears that personal trust plays a highly significant role in business services, while the food industry and trade also rely on collective and institutional trust. This is also because they seldom need to maintain such deep, long-term customer relations as in business services.

Criteria for choosing and/or staying with the current suppliers. Geographical vicinity was a rather common criterion when choosing suppliers, also across regions and sectors. The reasons varied from easier communication and quicker deliveries to ecological motives (shorter distance means less pollution by lorries) and money staying in the region. Price was seldom the primary criterion – mostly only when the supplies are less important for the business. Otherwise qualities related to geographical vicinity and competence of the supplier seemed more important. As one informant put it, ‘haggling costs more time than it saves money’. Besides the advantages of geographical vicinity listed above, it also had a trust related dimension in a few cases. For example, the informant at the East German brewery prefers East German suppliers to West German ones. In her opinion East German firms are less complicated, keep their promises, help and improvise, while West Germans are less flexible and service oriented. Moreover, the firm has had more problems with West German suppliers. This appears to be consistent both with our *collective trust* category as well as with Zucker’s (1986) characteristics-based trust. Another similar example of collective trust was provided by the East German engineering service, which prefers local organisations as its know-how suppliers (highly important for the business) because the entrepreneur knows what he is getting. However, in this case the collective trust is also partly mixed with personal trust, as the entrepreneur knows most of the relevant suppliers in his area. Nevertheless, it seems that collective trust plays a more important role in supplier relations than it does in customer ones.

Governance of Customer and Supplier Relations

In the survey results, the by far most common form of regulation in customer and supplier relations was the written contract. It was very common especially in East Germany and in the business services sector, while it played a lesser role in particular in the food industry. Although the case studies do not show any difference between East and West German firms, there appear to be differences between the sectors and even within them (see Tables 8 and 16 in the Annex). The *food industry* tends mostly towards informal regulation, regardless of whether the customers are private persons or businesses. Even the brewery (case #1), which has only wholesalers as customers, avoids written regulation, because the firm is ‘small and uncomplicated’ and the entrepreneur ‘hates contracts’. This indicates an important role for the personal preferences and business philosophy of the owner-manager in determining the business behaviour and strategy (Welter, 2003). On the other hand, the need for regulation is partly absent in this case, because a business association of beverage wholesalers guarantees payment even if the customer goes bankrupt. Thus, due to the intermediary function of the association, the risk involved in selling

to these customers (about 30 % of all customers are members) is minimal. A similar example was also provided by the West German pet shop with regards to its supplier relations (case #11). These examples illustrate the central role attributed to trade associations in Germany by previous research (Lane, 1997; Bachmann and Lane, 2001). The food industry firms interviewed also largely avoided written contracts in their supplier relations. Whereas both bakeries (cases #2 and #9) only sign delivery forms (these must be used due to VAT regulations), the brewery makes an annual contract with its malt suppliers. This is, however, an industry practice. Otherwise, the brewery also regulates its supplier relations informally. However, it is typical practice for the suppliers to check their customers' solvency through a credit agency. Thus, the supplier relations in this particular case seem to be based on institutional trust, although written contracts are not used.

As the survey results indicate, in the case studies *business-service* firms also mostly use written contracts with customers, while in *trade* the form of regulation depends more strongly on the customer base: if the firm serves mostly end consumers there is hardly a need for regulation, whereas written regulation seems to be the rule if the firm serves business customers. In regulating supplier relations, firms in business services are more willing to accept oral agreements. However, often the importance of suppliers is relatively low in this sector, while they are – unlike customers – usually easily substitutable. Thus the 'stakes' in the 'trust bet' (Coleman, 1990; Sztompka, 1999) are relatively low and the firm may trust more easily because it loses very little if the trust is let down. Unfortunately, the information on how the trade sector firms regulate their supplier relations does not come out in the case studies.

Although the written contract plays an unquestionably important role in the German business environment (cf. Bachmann and Lane, 2001), its role as a regulatory instrument needs to be questioned. As has been argued by Klein Woolthuis et al. (2002) and Nooteboom (2002), the written contract does not necessarily substitute, but can also complement trust. The case studies in fact strongly indicate a complementary role for contracts in relation to trust, both as a safeguard and in other functions.

Let us first focus on the *safeguard function*. When contracts are used, they seldom seem to be the primary form of regulation. Rather, they appear to form a solid basis for the relationship, whereby the safeguard role surfaces virtually only in problem situations when all informal means have failed. The most usual informal means (defined here as means that do not include formal enforcement) are to send one or more reminders, after which the customer is contacted personally (see Table 10 in the Annex). In several cases reminders are not used, i.e. in problem or conflict situations the firm approaches the customer directly. Some firms continue with informal means, while others turn to solicitors or collection agencies more readily. The latter group includes comparatively large firms, which gave a very professional impression during the interviews (cases #4 and #15 in particular). Most firms are reluctant to sue because of the high expenses, long processing times and uncertainty involved in a law suit. For some of them reputation considerations also play a role (e.g. cases #5 and #6). Furthermore, some firms in business services have more effective sanctioning tools than a law suit. These include stopping serving or advising the customer (cases #5 and #12) or using a built-in safeguard in the software product which enables the firm to disable the software if the customer does not pay (case #7). However, the fairness and competence of the judicial system was not doubted by the entrepreneurs and thus it may be concluded that the *level of institutional trust in Germany is indeed high*, as already proposed, for example, by Bachmann and Lane (2001).

However, often the primary role of the contract is not safeguarding against opportunistic behaviour. For example, the East German production consultancy (case #6) uses simple protocol-type contracts which act as *memory aids* when reviewing the results of the service with the customer afterwards. This function is clearly complementary to trust, as Klein Woolthuis et al. (2002) proposed. In at least two cases the use of a written contract appeared to be *habitual*, i.e. the entrepreneurs could not really specify the function of the contract – it was just part of the way

business is conducted (cases #6 and #14). For the West German image consultant (case #13), the written contract is a way to make the relationship more professional and business-like. In cases of co-operation, many of which are with the entrepreneur's friends, contracts also distinguish between business and private spheres. This function seems to refer at least partly to the contracts serving as a sign of commitment, which is also a function that complements trust (Klein Woolthuis et al., 2002). An example of the contract as a requirement of the institutional environment was provided by the engineering firm from East Germany (case #8), which reported using written contracts without the entrepreneur himself knowing their content. The contracts were described as just 'something for the accountants and administrators' without any practical relevance for the actual business. Similar practices were also reported by other firms, whether it is a contract, written order form or a delivery note that needs to be signed – some form of written documentation is often required either by the authorities or by public sector customers and co-operation partners, e.g. house-building associations and universities.

The case study evidence supports the survey finding that differences in *payment terms* offered to customers are due to the sector in which the firm operates (see Table 9 in the Annex for an overview).² However, the cases also show that there are intra-sectoral differences caused by the nature of the business and market characteristics. Cash, direct debit and sometimes also invoices are the most common forms of payment in the food industry and trade. An exception in the trade sector is the IT trade, whose payment terms are more similar to those common among business services, i.e. payment by invoice within 14 days or payment in instalments.

In general, payment terms in the food industry and trade (excluding IT) seem to be more fixed, whereas in business services and the IT trade they are more flexible and may vary between different customers or customer groups. This appears to be due to the transaction object: In the former group the transaction object is usually a standardised product, such as bakery products or books. The transaction is also basically complete, when the customer has received the product. However, in business services and IT trade the transaction object is usually customised and it includes a service element which may span over a long, even indefinite, period of time. This interpretation is supported by an informant in an IT trade firm (case #4), who said that his firm has standard payment terms for 'standard' customers, while customers who buy more complicated and customised systems also have more customised payment terms.

The stakes involved in a transaction also seemed to determine the payment terms: the more money involved, the more flexible payment terms are offered. However, in one case (the craft firm, case #16) the entrepreneur also said that he requires payment in instalments in bigger projects in order to control how the customer pays his/her bills before completing the project. An exception to this rule is one customer with whom the firm has worked for over ten years. With this particular customer even written documents are omitted, because of 'high trust'. Furthermore, one informant in business services (case #8) also explicitly said that he demands more money in the early phase of a project from new customers, whereas everything is handled 'very informally' with known customers. Also, both IT trade firms (cases #4 and #5) reported granting more flexibility to known customers. Thus, it appears that besides the transaction object and the stakes involved, personal trust also plays an important role in determining payment terms, especially in business services and the IT trade, where the transaction object is usually complex and long-term and the stakes are relatively high.

Co-operation

The case studies illustrate in more detail the survey results that the most common *forms of co-operation* across regions and sectors are the informal ones, in particular the exchange of infor-

² Unfortunately, there is only a limited amount of information concerning payment terms in supplier relations in the cases studies (see Table 17 in the Annex).

mation and experience (see Table 19 in the Annex). An interesting example of the importance of this type of cooperation was provided by the West German pet shop (case #11). This firm had participated in an organised experience exchange group, which had been facilitated by an external consultant. With the help of the facilitator, who basically acted as a trust intermediary, the information exchange in the group was very open and the relevant financial figures were also revealed to the other participants. Moreover, each participant had to sign a contract that acted as a formal safeguard against the misuse of information shared in the meetings. Although this particular cooperation forum was clearly based on institutional trust, in all other cases this kind of cooperation was regulated informally and thus based on personal and collective trust (see Table 22 in the Annex).

Other areas of cooperation that were mentioned in the case studies include sales, distribution, joint projects, customer acquisition, joint training for the staff and different services such as designing or computer programming. Most often *co-operation is based on personal trust*: Sometimes the entrepreneur had previously worked for the co-operation partner (cases #1 and #3), sometimes the partners are friends or otherwise known from a social context (e.g. cases #3, #13 and #14). Personal trust gets mixed with *collective trust* in the cases where the partner is known from networking in the industry, either by reputation or recommendations (cases #7 and #15) or from a business association context (cases #9, #15 and #16). There is also evidence of 'pure' collective trust in the case of the West German harbour-service provider (case #15). This firm also approaches potential co-operation partners by choosing them from the members of the business association specialising in the particular industry. *Institutional trust* seemed to serve as the primary basis for co-operation only in two cases. One was the organised information and experience exchange group discussed above, the other one the distribution partnerships of the East German IT trader (case #4). The distributors serve the firm's customers on location and are also sometimes entrusted with the implementation of smaller projects. The firm chooses the distributors based on criteria such as size and experience. Some of the distributors are found coincidentally, while some apply directly to the firm. The relationships with the distributors are regulated through a detailed written contract. However, if problems emerge the usual procedure for the firm is to terminate the relationship and replace the partner.

With one exception (case #5), co-operation was always rated as 'important' or 'very important' (see Table 20 in the Annex). However, based on indirect questions, the number of firms for which co-operations appear really essential becomes fewer. One of them is the East German IT trader, whose co-operation was discussed above. Another one is the East German book shop (case #3), whose most important cooperation is with local theatres. The entrepreneur is allowed to sell his books in the lobby in the evening and these sales may actually exceed the sales made in the shop during the whole day. This co-operation has emerged through old contacts and are regulated informally based on personal trust. Also, the East German software design firm (case #7) is involved in important co-operation with other similar firms (not yet direct competitors!), which enable both partners to combine their size and thus compete against large enterprises which dominate the market. The partners are chosen using networks. The informant said that he knows most firms in the industry, which allows him to assess with whom he can co-operate on a personal basis. Inter-personal chemistry is for him an important criterion in successful co-operation (cf. similar results in Nuissl et al., 2002). This co-operation is regulated with a written contract, mainly because the customer relations (the objects of co-operative projects) are also regulated in writing. However, the co-operation as such appeared to be based on personal rather than institutional trust.

For the West German auditing service (case #12) the co-operation that emerges out of the membership of an international network of auditing firms is indispensable, because more than half of the firm's customers are acquired this way. The membership is regulated through a written contract, which also sets a number of minimum standards that the member firms should meet. The co-operation is however regulated informally. Despite the minimum standards the service qual-

ity nevertheless varies a lot between network members. Therefore, the entrepreneur co-operates only with firms that he knows personally, and he would only recommend such firms to other people. Thus his involvement in co-operation appears to be purely based on personal trust.

Lastly, the West German image consultant (case #13) needs additional know-how from freelance co-operation partners, because she cannot complete projects on her own. Many of her partners are friends, but there are also many that she has met in different occasions, e.g. at the university or even in the street. She 'definitely' regulates co-operation in writing. The role of the written contract is to make the relationship more business-like and to distinguish between the roles as co-operation partners and friends. Therefore, as discussed in the case of customer and supplier relations, the contracts appear to be complements to trust rather than substitutes for it.

Our cases also illustrate another trend in co-operating, which might have implications for the role of trust in these relations, i.e., the overall trend towards offering integrated business solutions. Among a sample of American SMEs, Brush and Chaganti (1996) found pronounced differences in co-operation behaviour between technology-based SMEs and 'traditional' enterprises. This is partly explained by the general structural change in market economies, which forces more and more enterprises, especially in business services and in knowledge-intensive fields in manufacturing, to search for market niches (cf. Welter, 2003 and Schulte, 1999 for similar case evidence). One way of doing this refers to case-by-case co-operation. In this context, evidence from our case studies shows that mainly personal and collective trust play the decisive role in choosing partners.

To sum up, *personal trust appears to be essential* in inter-firm co-operation. Very often personal trust also appears to be the basis for the emergence of co-operation. However, sometimes also *collective trust*, manifest in business associations, plays a *complementary role*. In particular, it provides a basis for people to get to know each other and based on this knowledge (and personal trust associated with it) co-operation may emerge. Co-operation appeared to be based primarily on *institutional trust* in only two cases, where co-operation with previously unknown partners was unavoidable, either due to commercial arguments (case #4) or for the success of the cooperation (case #11).

Relationships with third party intermediaries

Third parties other than chambers and business associations. According to the survey results, the most common sources of assistance and advice in general business problems are regular business partners as well as chambers and business associations. At the start-up phase, help was most commonly received from regular business partners or family, followed by consultants and employees. In general, micro enterprises, as well as those in the food industry, tended more towards 'informal sources', and regular business partners played a more important role for East German businesses.

In the case studies, the most common third parties used on a more or less regular basis are tax accountants, which are used by almost all firms (see Table 23 in the Annex). The common reason for this appears to be the complicated German tax system. Also, solicitors are used by many firms across regions and sectors, although they are usually only used to process law suits with business partners, which were few and thus the services of solicitors were seldom needed.

Consultants are used rather seldom (see also Bennett and Robson, 1999 for similar results in the UK context). Only the West German pet shop (case #11) used a consultant (chosen as a result of recommendations and reputation) on a regular basis to review the firm's business development. This seemed to have become somewhat habitual, because the same consultant has been used for over 15 years to conduct this review. Instead of consultants, consultancy was often provided by tax accountants, if such advice was needed in the first place. As the informant from the West German auditing firm (case #12) said, businesses need to reach a certain size before they generate demand for consultancy services. However, one East German firm (#5) explicitly said that

he does not want to engage a consultant because he thinks it would just cause problems. In his opinion consultants are not really interested in small firms; they only want to make some quick money. Also Bennett and Robson (1999) found that consultants did not seem to enjoy the same kind of institutional trust as accountants, solicitors and banks. The latter, the authors argue, enjoy institutional trust resulting from professional self-regulation. Nevertheless, the common use of tax accountants and solicitors seems to be yet another piece of evidence referring to a *high level of institutional trust* in Germany.

The role of family and friends seemed to be particularly pronounced at the start-up phase. As the survey results suggest, micro firms appear to turn to family members and friends more commonly than small firms. In fact only those (micro) firms that had been established recently (cases #3, #13, #14 and #16) reported having received help from family and friends. One entrepreneur (case #3) said explicitly that he chose to found his firm in Dresden primarily because of the proximity of family, friends and other old contacts. Other sources of support and advice at the start-up phase were banks (cases #1 and #5), chambers (see below) and business support agencies (cases #1, #3 and #14).

Chambers and business associations. Our survey evidence shows that entrepreneurs attach only moderate importance to their memberships in business associations and chambers. However, almost every firm that was interviewed in the case studies belongs to one or more business associations, and many are also members of the Chamber of Commerce and Industry or the Chamber of Crafts (obligatory membership). Similarly to the survey results, the case studies indicate that business associations and especially chambers are more important in the food industry than in the other two sectors (see Tables 25a and 25b in the Annex). The importance of chambers is manifest in particular in the apprenticeship system, which plays a significant role in the food industry, thus reflecting the crafts background of many firms in this sector. Besides administering the apprenticeship system, the chamber provides services such as information about laws and regulations and legal counselling. However, the interviewed firms seemed to attach only a small or moderate value to these services. Some even said that their only contact to the chamber is when they pay their annual membership fee, while one interviewee thinks that chambers and business associations in general are ‘medieval’, ‘over-bureaucratised’ and ‘dispensable’ (case #4). Another entrepreneur, in the crafts sector (case #16), recognised the important role played by the chambers, but thought that the service provided currently is not proportional to the annual membership fee.

Although business associations fulfilled different functions, from protecting the recipe and brand of a bakery product (case #2) to setting informal standards in the export packaging industry (case #15), the most important function performed by these organisations from the perspective of the entrepreneurs interviewed is clearly to provide a forum for networking. Although the aforementioned ‘secondary’ functions are important in the respective cases and do indicate collective trust, it appears that most entrepreneurs use the initial collective trust provided by the association membership to build personal trust through networking in the association context. The interviewee who is also the president of the local branch of a well-known business association (case #6) said that his members are willing to pay high membership fees for the sole benefit of getting to know other entrepreneurs. This not only underlines the importance of personal trust in business relationships, but also indicates an important role for collective trust as a basis for building personal trust. However, the interviewed entrepreneurs seldom perceived business associations as rule or norm-setters – a role which was emphasised e.g. by Lane (1997). Rather, these (informal) rules seem to play a more tacit role and facilitate collective trust, which enables the associations to function as forums for networking among SMEs.

Intra-Firm Relationships

Seven of the case study firms have *partners* (see Table 26 in the Annex). In one case, one of the three partners only deals with finance (case #5); in another one, the partners are other firms that are not directly involved in operative management, but only in major strategic decisions (case #15). In all other cases the partners also work for the firm. The usual division of responsibilities between the partners appears to be rather equal, as it is based on specific customer accounts or managerial functions. Often the partners knew each other from the past, e.g. by having been work colleagues (case #4) or having known each other from a social context (case #14). In another case, the reputation of the firm had attracted further partners (case #12). However, to sum up, personal trust appears to play an important role in choosing partners.

Formal *control mechanisms* appeared to be rather uncommon in the studied enterprises (see Table 27 in the Annex). A few larger firms applied working-time control systems, while another few firms used control sheets and performance statistics. However, often the latter were used to administer customer accounts (e.g. adjust prices to costs) rather than to control the employees per se. There are two exceptions: two East German firms (cases #5 and #8) used performance-based remuneration, thus providing an extrinsic motive for increased effectiveness (see e.g. Bénabou and Tirole, 2003). One of these firms, the engineering service (case #8), reported this system having received a mixed response from the employees. Although the entrepreneur emphasised an informal organisation culture in his firm, one employee had gone to a solicitor without consulting the entrepreneur first and sued him for unfair treatment regarding the performance-based salary system. This is probably the most vivid example of contradictory evidence regarding an informal organisation culture, which was reported by most interviewees, although one needs to take into account that we only interviewed one side, i.e. the entrepreneur.

Furthermore, most entrepreneurs said that they trust their employees. However, in the context of decision-making it appears necessary to make a distinction between trust in the sense of non-opportunistic behaviour and competence trust (cf. Sako, 1992; Nooteboom, 2002). Although small technical decisions related to individual customer accounts are delegated, more important decisions are virtually always taken by the partners or the owner-manager (sometimes with help of an accountant or family and friends). The employees are, if at all, involved in a consulting role. This applies across regions, sizes and sectors. One entrepreneur (case #11) explicitly said that she also controls the decisions made by employees because she has more experience. This clearly indicates that the lack of trust concerns competence – there were no clear indicators that the entrepreneurs would expect the employees to behave opportunistically if given more responsibility.

Regulation and the Business Environment

As said before, previous studies indicate that the German environment is highly regulated and has a strong institutional order, implying a high level of institutional trust (Bachmann, 2001; Bachmann and Lane, 2001). In this context it is interesting to examine to what extent entrepreneurs trust regulations and the authorities which implement them. In general, it appears that the firms involved in business services in our case studies have little contact to the authorities other than the inland revenue, while, not surprisingly, the food industry representatives have comparatively the most interaction with the authorities, including municipal authorities and ones concerned with hygiene regulations (see Tables 28a and 28b in the Annex). A few firms have also had experiences with business support agencies and, depending on the specific type of business, also with other authorities such as veterinary officials or the Employers' Liability Insurance Association.

Although the opinions on the fairness of and general treatment received from authorities varied, virtually all interviewees complained about over-bureaucratisation and/or overly 'petty' imple-

mentation of regulations by authorities. This is manifest in particular in the excessive amounts of paperwork and long processing times. Moreover, non-transparent laws and regulations – especially concerning taxation – seem to be a problem. In addition, one entrepreneur who has started her business recently (case #14) would have liked there to be one contact person to act as a node to all other authorities relevant in the start-up process. These results are parallel to those in previous studies, e.g. the Global Entrepreneurship Monitor (Sternberg and Bergmann, 2003).

Most entrepreneurs think that the authorities are fair in general, although many also said that the treatment received depends on the official. As one entrepreneur put it (case #14), some officials try to help while many just do their routine tasks and show little interest. There was, however, one East German entrepreneur who had a very negative opinion on authorities that goes beyond over-bureaucratisation (case #6). He went so far as to say that authorities treat small firms badly and unfairly, degrade them and even lie to them. This entrepreneur had had his own bad experiences with authorities, which might be reflected in his opinion (see e.g. Alesina and La Ferrara, 2000, for more details on how personal bad experiences affect trust). Other than these two cases, the opinions of East and West German entrepreneurs did not seem to differ. There were entrepreneurs in both regions who reported having had no problems or even positive experiences with authorities. Similarly, interviewees in both regions also provided examples of (negative) experiences with authorities (see Table 29 in the Annex). Thus, our results do not support the arguments in the literature concerning lesser trust in public institutions in East Germany (cf. Grix, 1999; Meier, 1996).

Perception of the Domestic Trust Environment

The East German entrepreneurs seem to have no problems in trusting their *business partners* and fellow entrepreneurs, although some of them expressed a lack of trust in solicitors and consultants (cases #4 and #5, see Table 30a in the Annex). Many of their comments referred to a relatively high level of collective trust either locally or even among East Germans in general (cases #1 and #8). One entrepreneur (case #8) said that East Germans trust each other as ‘like-minded companions of suffering’ – they have a common background, pessimistic expectations regarding the future and people think trusting each other is necessary for survival. This particular entrepreneur described trusting people as his personal business philosophy, which he continues to maintain even though his trust has been let down with the result of almost ruining his business. On the other hand, except for two entrepreneurs (cases #15 and #16) the West German informants appeared more wary about trusting. They said e.g. that ‘people tend to trust each other too easily’ (case #11), ‘one can trust people less and less these days’ (case #12), ‘trust is good, but sometimes control is better’ (case #13) and ‘one has to know the people for a longer time to know when they are being serious’ (case #14).

Although the entrepreneurs interviewed had had both positive and negative experiences with *authorities*, virtually all of them seemed to be concerned about the over-bureaucratisation (see Table 30b in the Annex). However, in general the authorities were perceived to be fair (except for case #6 in which the entrepreneur said that he has ‘absolutely no trust at all’ in authorities, see also above). Where the entrepreneurs had in their opinion been mistreated, it had been due to the regulations, not the officials. On the other hand, many entrepreneurs thought that large businesses receive preferential treatment and that the authorities and politicians have little interest in SMEs.

Three companies (cases #1, #5 and #15) reported positive experiences with *banks* (at the start-up stage), while two firms (cases #4 and #11) reported negative experiences. The latter concerned being ‘laughed out’ by the bank when trying to get a start-up credit (in 1990 in East Germany, case #4) and changing banks due to increased bureaucracy (case #11). Other companies did not report direct experiences, but expressed a general opinion that banks treat large businesses preferentially and that it is difficult for a small firm to get a bank credit. Further-

more, in East Germany the entrepreneurs said that the situation has become much more difficult since the 'post-unification euphoria' of the early 1990s. One entrepreneur, who knows bank managers personally (case #6), said that banks have had to become more careful and critical since they lost a lot of money with the start-ups of the early 1990s in East Germany. Thus, it is difficult for all small firms to get a bank credit. Probably, therefore, two East German entrepreneurs (cases #3 and #4) said that they do not trust banks or trust them only with a detailed written contract.

Synthesis

This paper described and analysed the results of an empirical study on the role of trust in entrepreneurial behaviour in East and West Germany. The study comprised a standardised survey of 197 small businesses and 16 case studies. The main focus of the investigation was on different trust environments related to region (East and West Germany), enterprise size (micro and small businesses) and sector (food industry, trade and business services). These were analysed in terms of three different forms of trust – personal, collective and institutional. The central issues included inter-firm relations, relations within the firm, as well as the business environment, consisting of, for example, social networks, authorities and business associations and chambers.

As proposed in previous studies (e.g. Lane, 1997; Bachmann, 2001), our results also indicate that institutional trust plays an important role in *inter-firm relations* in both East and West Germany. This was particularly apparent in the high frequency of written contracts as a form of regulation in customer, supplier and other co-operative inter-firm relations. Not surprisingly, micro businesses regulate more informally than small firms due to their more limited resource base and more informal way of conducting business in general (cf. Lyons, 1994; Schumacher and Moyle, 2001). Although East German firms tend towards formal regulation more often than West German businesses, the form of regulation appears to be determined by sectoral and market characteristics rather than those for the region per se. Furthermore, instead of being the dominant form of trust, institutional trust appears to be the basis on which personal and collective trust are built. The written contract is not always primarily a safeguard, but often it is a requirement of the German institutional environment (e.g. accounting regulations), a habit or even a complement to personal trust (e.g. when it serves as a memory aid or a sign of commitment). While the contract may be enforced through courts as a last resort when all informal means to solve the business conflict have failed, the actual trust in the relationship is personal or collective in nature. This is evident in our results where the 'trust cues'³ related to personal and collective trust are most frequently used in selecting business partners, choosing the form of regulation and marketing products or services.

With regards to *intra-firm relations*, most entrepreneurs reported having high trust in their managers and employees. However, the case study evidence questions the extent of this trust. In fact the responsibilities of managers and employees were often restricted to certain areas of the business, while the most important decisions were made either by or in agreement with the owner-manager(s). Furthermore, in recruiting new employees, 'formal' criteria such as education and professional experience were mentioned by most respondents, but it is noteworthy that also 'informal' criteria such as recommendations and personal knowledge of the prospective employee played a role for clearly more than half of the surveyed firms.

The questions concerning the *business environment* focused on four main issues: financial environment, sources of assistance and advice, the start-up phase and the general attitude towards regulations and authorities. Although East German entrepreneurs especially evaluated their *fi-*

³ A trust cue in this context refers to a piece of information relevant to the actor's decision whether or not to trust an individual or organisation.

nancial environment negatively, access to capital in general did not appear to be restricted for the surveyed enterprises. Most firms had received bank credits, although for micro firms especially credits from family also played an important role. Interestingly, most entrepreneurs had to provide collaterals regardless of the credit source, which on the other hand determined the level of collateral. However, trust also appeared to play a role in determining the level of collateral in bank credits, which also indicates a role for personal trust in small firm-bank relationships.

The most common *sources of assistance and advice* included both those related to institutional trust (business associations and chambers, consultants) and those related to personal trust (regular business partners, family and friends). The case study results indicate that these sources tend to be different according to the stage of business development. Thus, micro businesses rely more on known, informal sources, while the use of 'anonymous' sources, such as consultants, increases as the business grows. This is in accordance with the typical 'strategic' behaviour of business founders (cf. Welter, 2003). The main constraints experienced by the firms surveyed at the *start-up* stage were most often related to the prevailing macroeconomic conditions and the heavily regulated business environment in Germany. Although East German entrepreneurs showed a more negative *attitude towards authorities and regulations*, this evaluation was usually based on the number and opaqueness of regulations, while the fairness and integrity of the officials implementing these regulations was not questioned.

So far the most important findings of the empirical study have been summarised. Next, we raise the question concerning the implications of these findings on the current state of knowledge about trust. The following addresses selected central questions related to trust research in general, and research focusing on the role of trust in entrepreneurial behaviour in particular.

How does trust develop? This refers to the extent of knowledge an entrepreneur needs of the other person in order to develop trust. The institutional environment might well play a decisive role insofar, as personal and collective trust might develop quicker in certain environments (such as business associations), whilst naturally institutional trust develops slower in fragile environments. Evidence from our case studies demonstrates that personal trust in business partners is often linked (not surprisingly) to long-standing relationships. Mutual experiences gained in dealing with each other is one of the key factors in developing trust. People have come to know each other, although there is no conclusive evidence which allows us to determine how much knowledge over how long a period is needed to establish trust in business relations (cf. Offe, 2001: 262).

How do entrepreneurs know that they might profit from this relationship, i.e., that they might trust the other party? The criteria used in selecting business partners clearly refer to collective trust, especially in those cases where entrepreneurs have not dealt with the business partner before. Collective trust is based on group behaviour in a wider sense. Shared norms and experiences (which are obvious in one entrepreneur's statement of East German entrepreneurs as "like-minded fellows in suffering"), as well as mutual business conventions, play an important role. This includes the reputation of the partner or recommendations from joint business colleagues. Personal trust is employed in some cases, based on initial (personal) knowledge about the partner, i.e., the entrepreneur uses his knowledge about the partner's competencies in selecting new business partners.

However, the borders between personal and collective trust remain blurred. For example, there might be personal trust when someone relies mainly on informal information channels in selecting business partners. But this also indicates collective trust, especially where this selection is not based on personal knowledge, but on third party recommendations or the new partner's reputation. Whether it is personal or collective trust, entrepreneurs implicitly appear to know or assume that the partner/friend will not behave in a way detrimental to the relationship, even when there are no written or explicit rules set out. This backs up Bachmann's observations that trustors could hardly quantify the chance of a possible betrayal, although contrary to his conclu-

sion, but similar to the findings by Nussli et al. (2002), entrepreneurs in our survey and case studies seem to know “what it is that may make his business partner appear to be trustworthy” (Bachmann, 2001: 357).

Do forms of trust change during the life-cycle of the business? Our empirical evidence seems to confirm that there is a shift from personal towards institutional trust. However, this does not imply that collective or institutional trust substitutes personal trust, but merely that personal trust plays a lesser role in business relationships as the business develops and grows. Over time, entrepreneurs gain a better knowledge of their business environment and they also come to know their own support needs, all of which might contribute to the replacement of informal sources of assistance.

In which cases can we talk about trust and in which ones about a ‘calculated risk’ (Williamson, 1993)? Moreover, how do we distinguish between a calculated risk which entrepreneurs can explicitly identify in their actions and talk about, and (different forms of) trust, which may unconsciously influence entrepreneur’s behaviour, especially where trust is based on tacit knowledge about both business colleagues and the general business environment? Here, Bachmann (2001: 346) draws attention to the fact, that the new institutionalism in sociology “explains the functioning of social institutions by the more subtle processes which control the patterns of social interactions. The fact that the institutional influences on individuals’ and organizations’ interactions are often withdrawn from their consciousness is actually viewed (...) as the central precondition of institutions being able properly to fulfil their function of stabilizing social actors’ mutual expectations and patterns of interaction.”

Looking at our empirical results, the distinction between trust and calculated risks is blurred. Trust in business relationships occurs when the person trusting is convinced that this is the best (i.e., least costly) way of acting. In this context, trust is a calculated risk and not “some sort of belief in the goodwill of the other.” (Seligman, 1997: 43). This is apparent in our IT-firms and IT-based business services, where entrepreneurs may regulate their business relations informally, but they (can) resort to product-specific safeguards or sanctions if customers do not pay. Thus, trust of their business partners would be a calculated risk. It might also be apparent in micro firms, which regulate more informally. This appears to be consistent with previous research on how the size of a business affects regulating behaviour. In further cases, we need to pay attention to the extent the limited resource base in micro firms (the liability of smallness) is substituted or complemented by taking ‘calculated risks’ within business relationships. Calculated risks even apply to intra-firm relationships, where entrepreneurs claim to trust their employees, emphasising an informal working climate, but on the other hand they ‘merely’ delegate operational tasks or install safeguards through regular meetings.

Does trust substitute or complement the institutional framework in Germany? Not surprisingly, it fulfils both roles. Our evidence shows business relationships which are not exclusively governed by formal regulations, but where trust-based transactions play an important role as well. The survey results indicate that most companies use written contracts, thus implicitly relying on institutional trust. On the other hand, evidence from our case studies illustrates that personal understanding often plays an important role in developing good relationships with customers, which would indicate personal trust. Case study results also show that a high share of written agreements does not imply a low(er) level of personal (inter-firm) trust. Written agreements are used because they are a requirement of the institutional environment in Germany: they are needed because of bookkeeping and internal revenue regulations. They may also complement trust, e.g. by serving as a memory aid, and they often also appear to be habitual, which is evident when the entrepreneur cannot explain why a contract is drawn up. Further, contracts might be omitted in price-regulated transactions such as simple sales in retail shops (unless we classify sales receipts as written agreements).

All this reinforces the earlier suggestion that we need to consider both ways in which trust interacts with the formal institutional framework in order to determine its impact on entrepreneurial behaviour (Welter, 2002b). It also refers to the fact that entrepreneurial behaviour is deeply embedded in the respective institutional environment. Here, it is institutional trust, which allows for the use of 'anonymous' sources in business relationships (such as new partners), because there are legal safeguards and sanctions in case the relationship fails. In this context, the German environment is one where institutions are established and mainly (should) function well. However, the negative experiences and evaluations from East German entrepreneurs question the overall dominance of institutional trust for German entrepreneurs as observed by Bachmann (2001: 354). Additionally, the question arises to what extent unpleasant experiences of business colleagues (as reported in some of the case studies) contribute to this overall worse image of the institutional and domestic trust environment. This attitude poses a problem, as institutional trust can only work as long as entrepreneurs accept institutions as the normative guiding principles for business behaviour (cf. Offe, 2001: 283).

The central *methodological implication* of our study concerns the restricted dynamic nature of cross-sectional research designs. Although several case studies add insights into the evolutionary nature of trust, the case studies as a whole also show the limits of the cross-sectional design. Ideally, the case studies and the survey should be repeated over time in order to capture the evolution of trust in different phases of trust relations and business development. Thus future research should strive for longitudinal research designs.

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Annex: Case Studies

Due to time restrictions some issues had to be omitted in each interview. Please note that a hyphen ('-') indicates that there is no information on this issue in the respective case study. If there is no information to any of the entries in a table, the case has been left out completely. However, if for example a firm has no co-operations, then the first respective entry says 'No co-operations', while the case has been omitted in all further entries related to co-operations.

Table 1: Overview of the cases

#	Firm	Sector	Size (#)	Founded ¹	Interviewee	Business concept and product
East Germany						
1	Brewery	Food	Small (20)	1999 (1846)	Assistant to the managing director, female in her 40s	Production and sale of draught and bottled beers. Specialty and the highest growing product is porter, brewed by few others in Germany.
2	Bakery	Food	Small (12)	1982 (1921)	Owner-manager, female in her 50s, higher vocational degree (Meister)	Production and sale of bakery products to end consumers incl. regional specialty "Dresdner Christenstollen" sold all over Germany and abroad
3	Book shop	Trade	Micro (1)	2002 (Dec)	Proprietor, male 42 yrs, university degree in Journalism	Book shop specialised in sophisticated literature on photography and erotica
4	IT trade & own software	Trade	Small (25)	1990	Managing director (co-owner), male in his 50s, university degree	Computer and office technology solutions incl. maintenance and leasing; own software product (inexpensive alternative to SAP)
5	IT trade	Trade	Small (10)	1990	Managing director (co-owner), male in his 50s, university degree	Hardware and business/office software to other companies incl. installation, consulting, training and maintenance services
6	Production consultancy	Services	Micro (1)	1990	Proprietor, male in his 50s, honorary professor, president of a business association (Wirtschaftsrat)	Management consulting, especially production / operations management.
7	Software design	Services	Small (15)	1995	Marketing manager (since 1999), male in his 30s, university degree	Software design for companies in the computer/high-tech industry incl. consulting, training and maintenance.
8	Engineering service	Services	Small (15)	1990	Managing director (co-owner), male in his 50s, PhD in Engineering	Innovation consulting incl. developing ideas, planning their technical realisation and acquiring financing from business support agencies.
West Germany						
9	Eco-bakery	Food	Small (18)	1989	Owner-manager, male in his 40s, higher vocational degree (Meister)	Production and sale of ecological (ideology very important) bakery products to end consumers and retailers.
10	Book mail-order	Trade	Micro (5)	late 1960s	Owner-manager (since very recently after husband died), female in her 40s	Mail-order for books specialised in certain areas of medicine.
11	Pet shop	Trade	Small (10)	1980 (1969)	Owner-manager, female in her 40s, vocational degree (Ausbildung)	Sale of small pets and pet-related products.
12	Auditing service	Services	Micro (6)	1947	Managing director / partner (since 1995), male in his 50s, PhD in management	Auditing and tax consulting services to other companies.
13	Image consultancy	Services	Micro (1)	2002 (Nov)	Proprietor, female 27 yrs, university degree in German language	Image consulting to business firms and private persons, e.g. designing shop interiors, logos, employee clothing etc.
14	Internet service	Services	Micro (2)	2003 (Jan)	Proprietor, female in her 30s, university degree in history	Sale of own Internet-based knowledge portal software (main product) as well as consulting, training and designing websites
15	Harbour service	Services	Small (20)	1997	Managing director, male in his 40s, university degree in management	Harbour services, e.g. container storage and export packing (individual packing of machines and machine parts).
16 ²	Electronic installation	Crafts	Micro (8)	1998 (1969)	Owner-manager, male 33 yrs, higher vocational degree (Meister)	Electronic installation and related repair services for both business and private customers.

– 1 The year the current entrepreneur founded, bought or took over the firm (original founding year, if applicable, in parentheses). – 2 Although this case does not fit into our sectors, we decided to use it as an additional expert interview.

Table 2a: History and business development – East German cases

#	Firm	History and business development
1	Brewery	Originally founded in 1846, the firm was functional throughout the socialist period as part of the regional VEB (state-owned company). In 1989 the company went bankrupt and was taken over by the Treulhand. In 1991 a West German firm took it over and used it more or less as a distributor for the mother company's products. The business did not run well because the regional character (reported as crucial for the business) was missing. As the current entrepreneur took over in 1999, the brewery started producing its own beers again.
2	Bakery	Family business founded in 1921 by the current entrepreneur's grandparents, taken over by her parents in 1956 and herself in 1982. Continuing family tradition was important, as none of the entrepreneur's brothers or sisters could do it. The firm was functional throughout the socialist period. As GDR fell, the firm was faced with problems: ancient machinery, rising costs forcing prices that customers could not afford, no more state subsidies, new laws and regulations to adopt and people who took advantage of the situation (the firm was cheated to buy "new" machinery that was outdated by Western standards).
3	Book shop	Founded in December 2002 as a one-man firm. The main motives for starting a book shop at this point of time were on the one hand upcoming redundancies in the newspaper where the entrepreneur used to work and on the other hand the entrepreneur's personal interest in literature.
4	IT trade & own software	Three researchers found each other at the university and decided to found a computer business in 1990, because there seemed to be a big market for reasonably priced PCs in the East. First the partners educated themselves in IT 'day and night' (little previous experience). When time was ripe, they bought 400,000 DM worth of PCs on credit from the West using Western contacts they had via the university. In 20 days all PCs were sold to the hundreds of friends, colleagues and acquaintances (incl. former students) the partners knew via the university. The capital brought in by the sales was invested in R&D to start the firm properly (incl. own software product). The partners tried to get capital from a bank but were 'laughed at'. Start-up problems included lack of suitable premises and support funds as well as the poor infrastructure back in 1990. The business has expanded strongly: at the beginning the partners were alone, now the firm employs 25 people.
5	IT trade	Founded in 1990 by six partners of which three are still with the firm. Two of the partners actually run the firm, while the rest were/are merely investors. The start-up idea came from the 'third' current partner who is located in Munich. The foundation and early phase were supported by a bank (especially through related publications) on the one hand and by a West German supplier (support & training) on the other hand. The company also received an investment bonus from the government. Suitable premises were easy to find and start-up bureaucracy went smoothly.
6	Production consultancy	Founded in 1990 as a one-man firm, the idea for the firm had matured over time in the entrepreneur's previous job in the East German Ministry of Industry. As soon as the border opened, the entrepreneur drove to Hamburg to register his business (it was not possible to register firms in East Germany at the time). The entrepreneur came across highly engaged politically ever since the unification. He was in fact also involved in this process making speeches etc. His political involvement (networks) also provided the first customers that led to the realisation of the start-up idea.
7	Software design	The firm used to be a subsidiary of an American company until the current owner team of four partners bought it in 1995. The company started with six employees in 1995 and has grown to employ 15 people in 2002.
8	Engineering service	Founded in 1990 by two partners in order to avoid unemployment. Both partners have engineering PhDs and had been involved in R&D as well as teaching and research at universities before starting the firm. The start-up went well although bureaucracy took its time due to the mass of start-ups in 1990. Help was received from the Chamber of Commerce as well as from a friend who had recently found a business. Financing consisted solely of own capital. At first the partners worked alone, but the firm had grown to employ 15 people by 2002.

Table 2b: History and business development – West German Cases

#	Firm	History and business development
9	Eco-bakery	Founded in 1989 by the entrepreneur alone. He had studied ecology-related subjects at a university, but dropped out and started an apprenticeship in an ecological bakery. After finishing it, the entrepreneur started his own eco-bakery because there was no prudent alternative in 1989. The ecological ideology is very important for the company concept, which was based rather on the ideology than adjusting to market demand. The firm operates production facilities (incl. a shop) and two shops in the city centre. One has existed since 1989, the other one was founded three years ago. The business had been growing steadily until three years ago, when it started to stagnate or even slightly decline.
10	Book mail-order	The company was founded by the current entrepreneur's husband in the late 1960s. He had left Austria after World War II and moved to Bavaria, where he worked as a sales rep. In the 1960s the Ruhr Area became attractive in particular because many new universities were established and the market appeared good for a specialised book shop. The husband ran the business until he passed away recently. Thus the current entrepreneur has been running the business only for a short time. The business reached its peak in the late 1970s and early 1980s when it employed ten people. In the mid 1980s the firm was forced to lay off many employees as the universities in the area did not invest as much anymore. Fluctuations in the public health care system affect the firm's business deeply. The situation at the moment is very difficult.
11	Pet shop	Established in 1969 by the current entrepreneur's father, who was succeeded by her mother until the current entrepreneur took over in 1980. She did not actually want to take over the family business because she had seen 'how much work it is'. She ended up doing so because 'the shop was there' and she did not want to leave her mother taking care of it alone. The business has been growing steadily and has moved four times to larger facilities, most recently in 2001. The current entrepreneur's father started the business alone, but now the firm has grown to employ ten people including the entrepreneur and her husband.
12	Auditing service	Founded in 1947 as a one-man firm. The founder is now 82-years old and still a partner in the company. He was described as 'one of the great names' in the auditing business with a good reputation all over the country. Currently there are three active partners, of which the interviewee is one. He joined the firm in 1995 after first having worked for large industrial enterprises. Since 1998 the firm belongs to an international network of some 300 auditing companies with partners all over the world. The interviewee is also the president of the German-speaking area in this network.
13	Image consultancy	Founded in November 2002 as a one-woman firm. The entrepreneur always wanted to be self-employed because she wants the freedom that large consulting companies cannot offer – at least yet as she is still inexperienced. However, she could imagine moving abroad later when she has more experience and then work for a large company. The most important thing is to have interesting projects to work on. The entrepreneur's mother and grandmother have also been business-owners. She had been developing the company concept during her studies (literature and business) and already realised small projects. Right after her graduation she went on to found the firm. The start-up was simple: she invested € 1 250 in printed materials (business cards, letter paper etc.) and registered as a freelancer at the inland revenue. As she runs the business from home, no other investments were necessary.
14	Internet service	Founded in January 2003, the firm is based on the idea that the entrepreneurs (interviewee and her partner) had been maturing for two years. The start-up was realised as the interviewee received a stipend from a state support programme, which provides university and polytechnic graduates half-time jobs as university assistants and thus financially supports them through the initial start-up period of up to two years. The other partner does not receive this support, because he has been an entrepreneur already since the late 1980s. The current economic situation was described as being unfavourable for innovative businesses such as this one. Therefore the actual main product – an Internet software – plays only a minor role, while the most income at the moment stems from secondary activities (e.g. consulting and training).
15	Harbour service	The firm was founded in 1997 by the now managing director (MD). However, he has never been the owner of the firm, but only the initiator who basically created a customised job for himself. The idea emerged as he worked in a similar company in another city and realised that there would be demand for harbour packing services in the Ruhr Area. He had also worked for years at the Deutsche Bahn as a customer consultant for business customers (esp. steel industry). Bringing the first customers along from the old jobs helped in the establishment of the business. Financing was found from his old employer (30 %), the city harbour company (60 %) as well as a shipping company (10 %). Finding these partners was essential because the MD wanted to found the business without investing any money himself – the amount needed would have been too much. In 2002 the firm generated € 3.1 million turnover after having existed only five years.
16	Electronic installation	The company has existed since 1969, but the current entrepreneur took it over in 1998. The take-over decision of was influenced by the fact that the entrepreneur's parents own a small business. The entrepreneur had heard from acquaintances and family members that the previous owner was going to sell the firm. In 1998 the firm employed two fulltime staff and an apprentice. Now it has grown to employ four fulltime workers and four apprentices.

Table 3a: Customers and market characteristics – East German cases

#	Firm	Number and characteristics of customers	Characteristics of the market served
1	Brewery	50–100 large domestic beverage wholesalers.	Local character important except for specialty products (porter). Growth of porter is hindered by lack of own logistics and wholesalers not agreeing to take smaller quantities to be tested by end customers.
2	Bakery	End consumers (could not specify number), a few small motels	Most customers reside near to the bakery shops. Specialty product (“Christstollen”) also sold by mail-order to other domestic and foreign (Europe, US) customers. This is, however, of marginal importance to the business as a whole.
3	Book shop	End consumers, young and sophisticated (could not specify number)	Currently only serves the local market. However, some expansion is planned through an Internet shop.
4	IT trade & own software	About 1000 domestic customers, most of them SMEs in trade (retail and wholesale).	-
5	IT trade	About 120 domestic customers, mostly SMEs; 5–8 are larger and more important than others (generate up to 80 % of turnover)	Customers all over the country, yet geographical closeness was mentioned as an important factor in the business.
6	Production consultancy	A very small number of large customers in West Germany, mostly in Hamburg.	Due to the specialisation in production consultancy, the customers have to be large with a complex division of labour. The firm serves only one customer at a time, an average project lasting 6–9 months. Customers are solely West German because ‘there are no large firms in East Germany’.
7	Software design	Ten customers, five most important ones large Asian enterprises. The rest are European and domestic customers.	Market is dominated by large enterprises – the most important difficulty for the firm is its small size, making it look serious enough for large customers. Market is relatively small and reputation spreads quickly through strong and weak ties.
8	Engineering service	Approx 200 customers during the first 12 years (mostly one-off projects), 90 % SMEs. Almost all customers are East German, a few are based in Eastern Europe.	Customers lack the capacity for technical innovations. No sectoral specification, yet always has to do with mechanical engineering. East European markets are not important as the markets are perceived too risky for bigger projects yet. West German customers are not interested because they prefer firms nearer to them.

Table 3b: Customers and market characteristics – West German cases

#	Firm	Number and characteristics of customers	Characteristics of the market served
9	Eco-bakery	End consumers (approx 600–1000, generate 1/4 of turnover); small private eco-retailers in the region, a few hospitals and hostels (about 40, generate 3/4 of turnover)	Only regional market is served through retailers etc.), end consumers are mostly local, yet they differ from 'regular' bakery customers in that they also come to the firm's shops from a bit further away. Regional character is also explained by the informal agreement of eco-bakeries in North-Rhine Westphalia that divides the Land to business spheres to which the different firms are allocated and thus avoid competition with one another. The agreement is well respected.
10	Book mail-order	Private customers: mostly medical doctors in Germany but also abroad (these MDs have often been educated in Germany), approx 8000, generate 2/3 of turnover. Organisational customers: hospitals and university libraries in the region, generate 1/3 of turnover.	Geographical vicinity is important with organisational customers because face-to-face contact is indispensable. Competition is hard and has intensified 'enormously' in the last few years. Competition includes large and small firms (book shops and publishers) which operate in the same niche (specialised medical books). Normal book shops are not competitors. Since book prices are fixed by law, other competitive advantages are needed e.g. in reliability of deliveries, knowledgeable service (customer appreciate it because these books are often very expensive) and personal contact.
11	Pet shop	250–300 customers, mainly end consumers but also a few business ones (e.g. doctor's receptions etc.).	Mostly regional market. However, the firm is a specialist in aquariums, which attract customers also from all over Germany and the Netherlands. The pet shop market in general appears strongly controlled by franchising chains.
12	Auditing service	Approx 200 customers, 20 % large, 80 % SMEs, mostly industrial enterprises and only in Germany; the four largest customers have a relatively strong impact on the business	Serves mostly the market of middle-sized and large businesses, because businesses do not need this firm's services until they have reached a certain size (about € 10 million annual turnover). Then the need for consultancy services grows greatly. Serves both domestic and foreign companies – yet only their German subsidiaries as regulations allow the firm to audit only in Germany. Market for auditors is relatively small and people know each other either directly or by reputation.
13	Image consultancy	No customers, at the time of the interview the entrepreneur was negotiating with three prospective customers.	As far as the entrepreneur knows, hers is the only firm in Germany to concentrate solely on image consulting. Closest competitors would be general (marketing) consultancies. Although the first three prospective customers are in the electronics trade in the region, these have been chosen out of convenience (she knows the industry) – the entrepreneur does not aim at serving a specific region or sector. She will serve only one customer at a time, one project lasting up to 2 years.
14	Internet service	Had just acquired the first customer at the time of the interview.	The potential clientele consists of SMEs, associations and 'knowledge providers' (e.g. academics, HE institutions etc.) Similarity in all these customer groups is that they could use a knowledge portal software but cannot afford the expensive big ones. Location of the customer does not matter.
15	Harbour service	Approx 160 business customers representing a wide range of sectors, but all of which export to overseas; most are from the region; 10 large corporations generate 60 % of turnover, another 25 firms are very important, the rest less important	The business has a strong regional character, because this is an important competitive advantage. The firm provides an alternative for land transport (river transport is 50 % cheaper) to big harbours (Rotterdam, Antwerp, Hamburg) for businesses in the region. Price appears to be an important argument in this context. Also quicker and more personal service count to regional advantages. The firm has a practical (regional) monopoly in certain services, while in others there are plenty of competitors.
16	Electronic installation	5 house-building associations (70 % of turnover), 10 business customers (10 %) and 200 private customers (20 %); all local	Being local is important because the customers want to pay as little driving expenses as possible. There are no real 'new' customers, but rather customers have to be won from competitors. There are about 100 direct competitors, which the entrepreneur knows 'pretty well'. There is no cut-throat competition as all companies in the region have similar costs. The hardest competition comes from Dutch firms, which can offer lower prices due to having different conditions in their home country.

Table 4: Regularity and substitutability of current customers

#	Firm	Regularity	Substitutability
East Germany			
1	Brewery	-	Power asymmetry strongly in favour of customers. Large number of customers decreases dependence on one firm. Initial investments in new customer relations high.
2	Bakery	Up to 90 % regular customers; many were already customers when the current entrepreneur's parents ran the business.	-
3	Book shop	About one third of customers are regular.	-
4	IT trade & own software	Long-term oriented customer relations, products require maintenance and training.	-
5	IT trade	Virtually all customers are regular.	Especially the large customers (which account for 80 % of turnover) would be 'absolutely difficult' to replace with similar ones because 'there are not enough good start-ups nowadays'.
7	Software design	50 % of customers are regular.	There are plenty of firms who need the products, but only few that have the money for them. Therefore holding on to present customers is important. Moreover, a new customer relationship is a considerable time investment. Especially with large enterprises 'getting down to business' may take a long time due to hierarchy.
8	Engineering service	Mostly one-off projects, 5–7 customers can be described as regular.	Most projects are one-off and the firm in fact prefers to work with new unknown customers because of 'more honest feedback' and a 'more valid test' for the firm's R&D ideas. Known customers might be less critical of the said ideas.
West Germany			
9	Eco-bakery	Customers are 'more or less' regular.	There are plenty of potential (business) customers in the Western Ruhr area, but only few that are realistic to acquire. Therefore the entrepreneur thinks that his business customers would be rather difficult to replace.
10	Book mail-order	Most customers are regular.	The organisational customers would be very difficult to replace because of the hard competition in the market.
11	Pet shop	Approx 70 % are regular.	-
12	Auditing service	Basically all customers are regular, it is part of the nature of this business.	* Since the firm has about 200 customers, it does not seem that replacing one would be difficult. However, it would be costly because of the first couple of years with a new customer making loss for the firm. An exception would be the four customers to which there seems to be a higher degree of dependence (too high in the interviewee's opinion).
13	Image consultancy	No customers yet – unlikely to become regular because the entrepreneur would not want to spend more than 2 years with one customer because the work would become boring.	* No customers at the moment. However, as the business concept sees only one customer at a time as well as one-off projects, there is unlikely to be a long-term dependence on one or few customers. The acquisition costs per customer are, however, relatively high as the process is very time-consuming.
14	Internet service	The firm had just acquired the first customer at the time of interview.	* The firm had just acquired the first customer at the time of interview. The business concept does not seem to include a high dependence on individual customers.
15	Harbour service	All customers are more or less regular; some generate business weekly, some a few times a year	-
16	Electronic installation	All organisational customers are regular, some on a daily basis, some bring a couple of jobs per month	Replacing current organisational customers would be very difficult. Should one of them leave the firm, there would be instant lay-offs.

* No direct information. The interpretation is based on 'secondary information' in the interview.

Table 5: Communication and maintenance of customer relationships

#	Firm	Communication and maintenance of customer relationships
East Germany		
3	Book shop	Contact at the shop as well as in local theatres where the entrepreneur sells books during breaks.
4	IT trade & own software	Regular face-to-face contact only with large customers; their systems need more on-site maintenance. Training sessions as well as invitations to trade fairs and product presentations important get-to-know events. No out of work context socialisation, wants to treat all customers similarly.
5	IT trade	Mostly by phone, fax and e-mail. Contact when needed, e.g. problems or software updates. Regular contact with large customers with customised systems; sporadic contact with smaller customers with more standardised systems.
7	Software design	Foreign customers: irregularly by phone, letter and e-mail; sometimes face-to-face in Asia. Domestic customers: more face-to-face (visits, trade fairs); maintenance more difficult with foreign customers due to cultural differences, esp. building trust is more difficult with Asians (firm has had bad experiences).
8	Engineering service	It used to be common to invite business partners to social activities 5–6 years ago, but now it would seem 'weird'. Inter-personal chemistry and 'being uncomplicated' are important. In East Germany one has to be more 'uncomplicated' than in the West.
West Germany		
9	Eco-bakery	The entrepreneur knows most of the business customers personally and visits them every now and then, yet too seldom due to lack of time. He thinks he should actually provide the customers with more product information than he does now.
10	Book mail-order	Direct mailings informing about new books, meeting customers at conferences and fairs which are plentiful in this subject area and also provide industry information. Also personal visits to organisational customers.
11	Pet shop	A regular customer's bonus system consisting of a discount booklet that offers a 2 % discount on certain products.
12	Auditing service	Contact frequency depends on the customer's size, i.e. large ones need more attention. Contact with large customers occurs daily, with smaller ones about once a month. In the initial phase of a relationship most communication is face-to-face, subsequently mostly by phone. E-mail is not used much due to confidentiality considerations.
13	Image consultancy	A large share of the work will be on location where face-to-face communication is essential, so the relationship could become rather personal. As a female in this industry with mostly male customers, clothing and appearance are important and the entrepreneur has to deal differently with management and 'normal' employees.
14	Internet service	There is more contact in the initial phase of customer relations due to more need for training and consultancy. Later the contact will be limited to the customer downloading updates from the company website.
15	Harbour service	Mostly by phone. An important aspect is that the customer always has the same contact person – usually the contact person in the customer company is also always the same one.
16	Electronic installation	One customer always has the same contact person. This system has developed naturally, as the customers and the firm's employees have got to know each other in the course of cooperation. There is seldom contact outside of work context.

Table 6: Importance and benefits of long-term (personal) relations with customers

#	Firm	Importance	Benefits
East Germany			
1	Brewery	Personal relations are very important.	Informal and uncomplicated handling of problems. With most closely known customers also joint end customer acquisition.
4	IT trade & own software	Important due to long-term orientation.	-
5	IT trade	Personal and long-term relations very important; customer is always served by the same person	Predictability of income, cumulative knowledge of customers' needs (enables quick reactions), trust regarding e.g. data protection. The employees know their customers 'like the back their hands'.
6	Production consultancy	Long-term customer relations are important, because they develop in sequences.	Relations usually begin with small engagements. Over time, the customer sees that the entrepreneur is not 'a mad person' and larger projects become entrusted to him. He has to be able to develop a friendly and sympathetic atmosphere because he as a stranger has to tell the customers what they have been doing wrong. Good communication and trust are important.
7	Software design	Important at least due to difficult substitutability of customers.	Trust, mutual understanding, information about developments in the industry (very important), recommendations for further business.
8	Engineering service	Long-term interfirm relation not important, personal relation very important	(Working with one firm in a longer project) 'You know each other, you understand each other blindly and get along well with each other, you know what you can expect from the other party.' Long-term relations in the sense of multiple projects are no important as each project is completely different and cumulative learning benefits negligible.
West Germany			
9	Eco-bakery	Long-term relations very important.	Customer must know the firm, because they need to know the products and how they are made in order to maintain the ecological image. Benefits for the firm include also regular and predictable sales, less work for the staff, easier problem-solving and calculability.
10	Book mail-order	Both long-term and personal relations important.	Personal service provides a competitive advantage, long-term orientation (keeping one's customers) is important because of intense competition.
12	Auditing service	Long-term personal relations are of utmost importance.	The relationship between an auditor and his/her customer is very personal and deep. The interviewee knows about his customers 'more than their wives'. He added that 'once you start talking about money the relationship becomes personal'. Confidentiality is essential and it is also regulated by law in this business. Auditors are 'known for their discretion'. Customer relations in auditing business are long-term, an average one lasting over ten years. In fact the first couple of years with a customer usually make loss. After that the learning effects start bringing along profits. Other benefits include knowing the firm inside-out, knowing the executives and how they react to certain things.
13	Image consultancy	Personal relations are important, long-term relations in the sense of multiple projects are unimportant.	A lot of the communication takes place face-to-face so a personal relation of some degree is bound to emerge with the customer.
15	Harbour service	Long-term personal relations are important	One knows the customer and s/he feels being attended to personally. Anonymous service would not function well. In a few cases the contact persons have even become friends in a non-business context. This depends on sympathy between the respective persons.
16	Electronic installation	Long-term relations are important	They bring stability to the business (company has to have 100 % occupation due to high labour costs); the firm does not have to fear non-payment when it knows customers from previous cooperation.
<i>If nothing else is indicated, personal relations refer only to the business context.</i>			

Table 7a: Acquisition of customers – East German cases

#	Firm	Acquisition methods
1	Brewery	Word of mouth, trade fairs and own sales reps promoting to end customers. Contacts brought by the entrepreneur from his previous job in the same industry are also very important.
2	Bakery	Adverts in newspapers, phone book, tourist buses and the Internet, which is particularly important for the “Christstollen” specialty sold by mail-order.
3	Book shop	Word of mouth, newspaper adverts (occasionally), organising readings and art exhibitions at the shop, adverts in local events brochures. Also participates in promotional campaigns and events organised by small firms in the neighbourhood (e.g. Christopher Street Day).
4	IT trade & own software	Customer call centre, adverts in IT magazines, trade fairs, PR activities, direct marketing, retailer cooperatives and a reference customer system (customer gets discounts by allowing the firm to bring prospective customers to see how the system works).
5	IT trade	Mostly word-of-mouth recommendations and direct recommendations especially in cases where employees of present customers change to non-customers and recommend the firm's products there. Further, sometimes software manufacturers forward customer enquiries to the firm. Also direct marketing using the Yellow Pages as well as presence at trade fairs are used. Methods such as Call Centre or circular letters were judged ineffective.
6	Production consultancy	The entrepreneur's involvement in a managing position of a business associations is absolutely essential – without this involvement he would not stand a chance of being taken seriously by West German customers. Recommendations from existing customers are one way of recruiting new customers. Even more important are informal contacts gained in business associations and clubs, out of which customer relations emerge eventually. The entrepreneur seemed to be a member in many associations and clubs and came across as a very well networked person in general. He also approaches potential customers directly by phone.
7	Software design	Large share of clientele is historically based, i.e. inherited from the American firm at buy-out. New customer acquisition methods include trade fairs and recommendations from existing customers. Most actors in the market are also known either directly or by reputation.
8	Engineering service	Usually selects potential customers in the Yellow Pages and calls them directly. Important in the approaches is to be ‘uncomplicated’ – more so than in the West, because in the East business is more informal. New customers are also found by meeting them in a business association context or through recommendations from present or past customers. Foreign customers seem to have been found by coincidence, e.g. the Russian customer was found through a mutual acquaintance.

Table 7b: Acquisition of customers – West German cases

#	Firm	Acquisition methods
9	Eco-bakery	Reputation and recommendations are the most important means of customer acquisition. In the past the customers contacted the firm to enquire about the products, nowadays the firm contacts potential customers based on their reputation.
10	Book mail-order	Private customers: conferences and trade fairs. Organisational customers: word-of-mouth, contacting potential customers directly. Recommendations from existing customers in this case are extremely important as the hospitals in the area are well networked and recommendations enjoy a high value.
11	Pet shop	Direct mailings, newspaper adverts, word of mouth. The first two account for 70 % of new customer acquisitions, the latter brings the remaining 30 %. Trust is apparently an important issue especially with respect to customers wanting to buy live animals (a company slogan says 'Selling animals is a trust issue'). The customer must be able to trust the firm especially to have the necessary experience to provide proper advice and not to sell a sick animal.
12	Auditing service	Some of the customers have been with the firm since its foundation in 1947. Some others have been brought in by the current partners from their old jobs. This is very typical in the auditing business, because the relationship is really between the auditor and the customer, not between the auditing firm and the customer. Customer acquisition occurs through the international auditors' network (over 50 % of new customers), by meeting customers in the context of business associations and clubs as well as receiving recommendations from acquaintances and banks. Also general reputation is important. A further channel is giving presentations at polytechnics and Chambers of Commerce and Industry.
13	Image consultancy	The entrepreneur sends an 'application' to the potential customer in which she explains the project idea. In order to write such an application, she needs to do research e.g. related to advertising materials of the firm, analyse these materials and then develop a project idea. This usually takes a few weeks. If the firm likes the idea, she gets invited to a project meeting and if this is successful, the project can begin. So far she has chosen potential customers in the electronics trade in the region, because she knows the industry from working there part-time in her fiancée's company. However, she did not know any of these firms either directly or indirectly. The entrepreneur has no regional, size or sectoral preference – all that counts is potential for an interesting project.
14	Internet service	So far: word of mouth, hobby website on the Internet and a presentation at a Swiss HE institution. The entrepreneur does not want to invest money in formal promotion channels yet. She rather prefers to pick customers who are familiar with computers and can understand the product quickly. Otherwise the selling process becomes too laborious and costly. She also prefers to keep a low profile initially in order to prevent somebody stealing the product idea.
15	Harbour service	The firm usually contacts potential customers directly. The MD knows pretty well what kind of companies make interesting customers and can make targeted contacts based on this segmentation. He also knows a lot of firms from his previous employment and uses these contacts to find new customers. Moreover, the first customers were also his 'old' customers in the previous jobs. This type of customer acquisition is typical in the business. Contacts from customers based on recommendations and reputation also occur 5–10 times a year.
16	Electronic installation	Private customers are acquired by word of mouth. Some of the house-building associations were already customers as the current entrepreneur took over the firm in 1998. The entrepreneur also brought one such customer from his previous job. The rest of the customers have come to the firm as a competitor has closed down and the customers have heard from somebody that this firm could do the job (reputation).

Table 8: Regulation of customer relationships

#	Firm	Forms of regulation
East Germany		
1	Brewery	Mostly informal. Annual meetings with largest customers where prices and conditions for the year are negotiated, confirmed by handshake or minutes. Formal regulation avoided because firm is 'small and uncomplicated' and the owner 'hates contracts'.
2	Bakery	See 'payment terms'.
3	Book shop	As customers are currently only end consumers who pay in cash, there is no need for regulation.
4	IT trade & own software	Standard contract of 10–100 pages (depending on the scope of product/service) composed by solicitors describes the duties of both parties in detail. Usually also customers use a solicitor when concluding contract. All supplementary agreements are made in writing. The main purpose of the contract is to provide a safeguard against 'excessive additional claims' by the customer due to the complex product.
5	IT trade	Written contract including e.g. scope of service and amounts of software licence fees.
6	Production consultancy	Always a written contract, would not rely on oral agreement under any circumstances. It is essential to document to the customer in writing what the firm has to offer and on what terms. The specific contract is to a large extent like the minutes of a meeting recording e.g. scope of service, hourly rate and number of hours planned (often less than actual worked hours). It is referred to as a benchmark when the firm presents the results of the consulting project to the top management.
7	Software design	Written contracts are irreplaceable, esp. as safeguards against 'excessive additional claims' by the customer. The product is so complex that without exact specification the customer could request more than what was agreed on initially. Scope of service is thus primary object of regulation. Interviewee added that exact specification in writing is also an advantage for the customer.
8	Engineering service	Approx 80 % written contracts, which are however 'totally unimportant'. The entrepreneur does not even know their content. Contracts are only for administration purposes, required by the business support agencies which finance basically all projects. A normal basis for a project are the written minutes of the first project meeting.
West Germany		
9	Eco-bakery	No written contracts. Business customers place orders by phone or fax and sign a delivery note when they receive the products. The bill is issued based on this note, which is also enough for legal action if necessary. The delivery note has to be made and signed because of VAT regulations.
10	Book mail-order	* Presumably no written contracts, the books are sent to customers along with an invoice based on, I would assume, a phone call, fax or e-mail. Probably a delivery note has to be signed by the customer (due to VAT regulations, see case #9) and this has also legal force.
11	Pet shop	See 'payment terms'.
12	Auditing service	The interviewee has never used a written contract to regulate a customer relationship. Instead everything is regulated orally e.g. over lunch. This conduct is not customary in the industry, as the interviewee knows many colleagues who use detailed written contracts. He does not want to use contracts, one reason being that contracts are not effective safeguards in his business. If the customer wants to sanction the firm, it switches to another auditor and having a contract does not help. The firm's biggest sanction for the customer is not to conduct the next annual audit, not sue the customer.
13	Image consultancy	Written contract – the entrepreneur would never rely on an oral agreement. The contract is both a safeguard against payment problems as well as a signal that the relationship is serious. The standard contract has been written by an acquainted solicitor and it regulates e.g. consulting fee, commitment to professional discretion, scope of service and that changes to the agreement must be in writing. It also states that the entrepreneur is allowed to work in a way that she sees best.
14	Internet service	'Of course' a written contract, which is a standard one drawn together with the firm's solicitor/tax accountant. The contract consists of standard business conditions, scope of service and liabilities of the parties.
15	Harbour service	Disregarding whether the offer has been made in writing or orally (both are used), there is always a written document featuring the most important items such as price and scope of service. This is also for internal purposes, i.e. the employee knows what the boss has offered. With some large customers framework contracts are made. These set fixed prices for the individual service components. This arrangement saves both parties time as there is no need to negotiate each transaction separately. With one very large customer there is an agreement of annual fixed prices without a framework contract. In general, the contracts used are highly specific (up to 60 items).
16	Electronic installation	Written order forms which specify the price and the scope of service. With one customer this form is omitted due to high trust between the parties which has evolved in the course of over 10 years of trouble-free cooperation. With some house-building associations a written form is necessary because their administration requires it in order to make sure that only the agreed services are paid for. The entrepreneur thinks that the administration causes a lot of unnecessary paperwork for the craftsmen. Cheating would anyway be imprudent as it would be noticed sooner or later. Thus he thinks that the administration causes more costs with its control than it would lose in case some companies added a few little extra services to the bill every now and then.
* No direct information. The interpretation is based on 'secondary information' in the interview.		

Table 9: Payment terms with customers

#	Firm	Payment terms
East Germany		
1	Brewery	For 25–30 % of customers, two business associations of beverage wholesalers act as intermediaries who pay the producers (even in case of bankruptcy) and then bill their members. The rest are charged by direct debit or (only few) they pay by bank transfer.
2	Bakery	Cash for normal customers. For mail-order customers cheque and bank transfer. Firm sends products first, receives payment later, although the orders may sometimes be quite valuable.
3	Book shop	Cash.
4	IT trade & own software	Usually the same terms apply to all 'standard' customers; customer relations with more customised product/service package may also have more customised payment terms.
5	IT trade	By invoice within 14 days. However, this is not seen bureaucratically. There is flexibility especially for known customers and the possibility of payment in instalments, yet only for known customers.
7	Software design	In instalments (large deals) or on delivery (smaller deals).
8	Engineering service	In instalments, the first bill is due in 4 weeks at the latest. With new customers usually a larger share of the money (= support funds) comes to the firm first and later more to the customer. With old customers everything is handled very informally as the partners have come to know each other by and by.
West Germany		
9	Eco-bakery	End consumers pay in cash at shops, business customers pay mostly by direct debit, while a few pay by bank transfer.
10	Book mail-order	By invoice, i.e. the customer pays after s/he has received the book(s). Private customers have to pay right away, organisational customers have to allowed 4–6 weeks due to bureaucracy. The entrepreneur thinks it is often frustrating to wait for the money that long.
11	Pet shop	Usually the customers pay either in cash or with a debit card, while some customers buying more expensive products (e.g. aquariums) may pay by invoice.
12	Auditing service	Very flexible and purely based on trust. Some customers pay within days, some take months.
13	Image consultancy	Projects are carried out in periods of about 70 days and payment follows each period. The entrepreneur does not want to get paid until the work is done.
14	Internet service	Variable depending on the customer. Most have to pay cash on delivery, while associations are given 14 days and universities as long as their bureaucracy takes. In the latter case the longer time does not matter because the firm can be sure to get its money eventually.
15	Harbour service	14 days net for other than customers with a framework contract.
16	Electronic installation	Vary according to the customer – usually cash on delivery or 14 days net. In case of house-building associations the payment deadline is in eight weeks due to the administration taking its time to process the invoice. Non-payments are a small problem. To cope with this risk, the firm requires fixed payment terms as well as payment in instalments so that it can control how the customer pays before the work is finished. There is also an insurance available to cover non-payment, but it pays off only when very large sums are involved (the firm has bought it once).

Table 10: What happens in case of payment or other problems with customers?

#	Firm	What happens in case of payment or other problems?
East Germany		
1	Brewery	Non-payment: 2–3 reminders, informal discussions. As a last resort, a solicitor is contacted (so far needed only a couple of times).
2	Bakery	Non-payment happens sometimes with domestic mail-order customers; foreign ones pay promptly. Often reminders help as some customers have genuinely forgotten to pay. The entrepreneur has considered hiring a collection agency, but it does not fit her style of doing business. She would not like advance payment either, because she feels they would not be fair to the customer as s/he had no guarantee of receiving the product. Good experiences have been made with direct debit, which was thought to be fair for both parties.
4	IT trade & own software	Customer is first approached directly – flexibility regarding payment problems is essential in the business. Flexibility is granted on business arguments (sum involved and future prospects with the customer), knowledge of customer and personal impression. Usually this works, if not one of the regular solicitors proceeds with a law suit.
5	IT trade	Payment problems occur seldom. Should one occur, the firm first sends a reminder and then handles the problem informally. Threatening with solicitor does not help because ‘you need the customers to recommend you’. An effective form of sanction is to stop advising the customer – ex post consultation is an important part of service in this business. In extreme cases (in 2001 twice) a solicitor is hired and the customer taken to court. There has also been problems with inter-personal chemistry between firm employee and the customer, especially with male employees and female customers. In these cases the employee is assigned to another customer and a colleague takes over.
6	Production consultancy	The entrepreneur admitted not knowing what would happen in a problem case as he has never had any problems. He thinks that large customers are more organised and have such financial resources that they can be relied on to pay their bills. In a problem case, he would probably handle it informally with the customer. He would never engage a solicitor because this would be detrimental to his business reputation. However, if enough money was at stake perhaps he might go to court after all.
7	Software design	Problems are solved directly with the customer. Once the firm tried to solve a non-payment case by hiring a solicitor, but it did not work out. Now the firm has an in-built safeguard in the software that allows the software to be disabled until the payment has been made.
8	Engineering service	Problems are dealt with ‘man to man’ without engaging any third parties. The entrepreneur described this as his personal business philosophy. In an extreme case the firm calls the relationship off. Problems arise when it gets ‘serious with the money’ – there have been a few such cases.
West Germany		
9	Eco-bakery	Payment problems occur sometimes. First the firm sends a reminder, which almost always works. If it does not, the entrepreneur calls the customer personally. Also this method usually works. In the very few cases these do not work, the firm stops deliveries and in the most extreme cases turns to a solicitor.
10	Book mail-order	Non-payments occasionally happen, but are not a real problem in the business. The usual way of dealing with the cases is to send up to three reminders after which a solicitor is contacted.
11	Pet shop	There has sometimes been payment problems with invoice customers and once the company has even hired a solicitor to process the claim. However, the process has not been successful yet. Payment by debit card (using the electronic interface) also contains risks, because the customer can withdraw the transaction within eight days and there is little the firm can do about it (fortunately most customers do not know this). Since the debit card is a common form of payment, the firm has to accept it despite of the risk. There is an insurance available to cover this risk, but it is so expensive that it does not pay off.
12	Auditing service	The interviewee has never sent a reminder. If there is a large delay in payment, he simply does not conduct the next annual audit. This has always done the trick. Only once has he not received his money and this was due to the customer going bankrupt.
13	Image consultancy	No customers yet. In a problem case the entrepreneur would first call the customer. In an extreme case she would go to court, but she prefers other means as a law suit takes too long. One such means is to call the customer so many times that s/he rather pays than receives another call (she has done this successfully in her fiancée’s firm). In general she thinks that payment problems will not occur as she trusts the customers to be fair and value her work by paying as agreed.
14	Internet service	There has been no such cases yet, but the entrepreneur thinks she would call the customer first and if that does not help, she would send a reminder and eventually contact a credit agency. Bankruptcies are a problem in this business. Therefore the entrepreneur prefers public institutions as customers.
15	Harbour service	First the firm sends a reminder, then calls the customer. If necessary, also a personal meeting is organised. If nothing else helps, the firm hires a collection agency. In the so far 2–3 cases this has worked very well. As the very last resort the customer is sued (one law suit running at the moment).
16	Electronic installation	The usual first reaction is to send a reminder. If it does not work, the entrepreneur turns directly to the customer. The entrepreneur would consider going to court as a last resort. However, apparently the non-payment cases have so far been with private customers, in which case the sums involved are so small that formal legal action does not pay off. The problem is that the customer knows this too.

Table 11: Suppliers

#	Firm	Number and characteristics of suppliers
East Germany		
1	Brewery	30–40 both East and West German firms.
2	Bakery	Two main suppliers of ingredients, both local. The entrepreneur is a member of one of these companies (a collective) already since the GDR era. Benefits: may vote in some decisions and receives a profit share. Machinery is bought directly from the manufacturer.
3	Book shop	One wholesaler and approx 40–50 publishing houses. Buys 30 % from the wholesaler (quicker), 70 % directly from publishers (better profit margins). Always orders from publishers if possible (i.e. customers do not mind to wait).
5	IT trade	Approx 20 suppliers, can be divided to hardware and software ones. 90 % of hardware supplied by one large firm in Munich, the rest 10 % are bought from elsewhere because the regular one does not carry the respective products. Software suppliers are smaller and located in both East and West Germany.
7	Software design	Five regional hardware suppliers, which deliver components sold by the firm as part of ‘complete solution packages’. Otherwise the firm does not sell hardware.
8	Engineering service	Two kinds of suppliers: 1) suppliers of electronic equipment needed in projects, mostly large firms all over Germany, play only a minor role in the business; 2) other local R&D service providers (know-how suppliers), e.g. Fraunhofer Institut and university. The firm buys all know-how outside its scope of expertise to concentrate on core competencies.
West Germany		
9	Eco-bakery	7–8 regular suppliers. Occasionally also other suppliers are used. Half of the regulars are large wholesalers in the region or in neighbouring Länder, the other half small local farms. All eggs and 1/3 of grain is purchased from the farms, the rest from the wholesalers.
10	Book mail-order	Two kinds of suppliers: publishing houses and a wholesaler. The latter is used only when the customer requires a book within a very short time, which happens rather seldom. Thus there is no need to co-operate with more than one wholesaler. The advantage of the wholesaler are quick deliveries, the disadvantage the lower discount rates than at publishing houses (at fixed book prices discount determines the book shop’s profit). Wholesaler is in Cologne, publishers (there are many of them) are mostly domestic but there are also a few foreign ones.
11	Pet shop	One large wholesalers provides half of the supplies, while about 60 small firms provide the other half. All of the small firms belong to one cooperative society. An important advantage of the cooperative is that it guarantees better prices for small independent firms such as this one and thus provides a competitive advantage of franchising systems without the duties involved in them (the entrepreneur seemed somewhat fearful of franchising chains).
13	Image consultancy	The only supplier is a printing shop, which is responsible for printed materials from business cards to design sketches.
15	Harbour service	Approx 30 suppliers, mostly from the region except for one Swedish firm.
16	Electronic installation	Five regular suppliers, all of them large wholesalers and all of them are either regional or have subsidiaries in the region.

Table 12: Regularity and substitutability of current suppliers

#	Firm	Regularity	Substitutability
East Germany			
2	Bakery	Both ingredient suppliers are regular since the socialist era and were also used by the current entrepreneur's parents.	-
3	Book shop	Suppliers are regular (as much as they can after 6 months of operation).	-
5	IT trade	All suppliers are regular.	It would be relatively easy to find equivalent replacements for most of the current suppliers. However, for complex software products this would be time-consuming as these products require the firm's staff to take additional product-specific training which takes 6–9 months. So far the company has changed a supplier only when one has went bankrupt.
7	Software design	All suppliers are regular.	Each supplier could be replaced with an equivalent one without problems.
8	Engineering service	Know-how suppliers seemed to be regular, as entrepreneur said he prefers to work with a small number of suppliers. Equipment suppliers are not regular.	-
West Germany			
9	Eco-bakery	Virtually all are regular, the relations have existed for years already with little need for changes.	There are not many local farms that can be taken seriously because of the need to provide proof of ecological origin. Thus there are not many alternative suppliers in this category. However, these products can also be purchased from the wholesalers, which can provide the ecological proof more easily. There are enough equivalent alternative wholesalers available.
10	Book mail-order	Mostly regular.	Wholesaler could be replaced. Publishers would be difficult to replace because most relevant ones are concentrated to large parent companies (e.g. Bertelsmann) from whom the shop is basically forced to buy as they publish the relevant books. In general the entrepreneur said that small book shops like hers have no position (in terms of power) at all in relation to these big publishing houses.
11	Pet shop	-	The products of the 60 small suppliers partly overlap – if the firm should be dissatisfied with one supplier, it would be unproblematic to purchase the same items from another one.
13	Image consultancy	The entrepreneur thinks she will work with the only supplier on a regular basis.	The only supplier would be easy to replace.
15	Harbour service	All suppliers are regular.	There are enough alternative similar suppliers in the market.
16	Electronic installation	All suppliers are regular.	There are enough alternative similar suppliers in the market.

Table 13: Communication and maintenance of supplier relationships

#	Firm	Maintenance / communication
East Germany		
1	Brewery	Largest ones are known personally, sales reps of both organisations know each other and Christmas presents are exchanged.
2	Bakery	Sales reps visit the firm, one contact person is actively present in the baker guild (Innung, part of the Chamber of Crafts) and “knows his bakers”.
3	Book shop	Mostly via the Internet and by phone, but sometimes sales reps from both the wholesaler and publishers visit the shop. Trade fairs are also a forum to meet people.
5	IT trade	Usually by phone and e-mail. Exception is a software supplier with which the firm co-operates since 1990 and has regular personal contact. An event called ‘dealer days’ provides a chance to meet several suppliers at a time (takes place ‘every now and then’).
West Germany		
9	Eco-bakery	Telephone contact almost every week, meetings in person approximately once a month.
10	Book mail-order	Wholesaler: orders are placed on the phone, very little personal contact in the whole relation. Publishers: mostly through sales reps, who visit the firm twice a year.
11	Pet shop	Telephone, with some suppliers there is also social contact in leisure time.
15	Harbour service	Mostly by phone, but there are also face-to-face meetings.
16	Electronic installation	There is contact every two or three days, usually by phone, fax or e-mail.

Table 14: Importance and benefits of long-term (personal) relations with suppliers

#	Firm	Importance	Benefits
East Germany			
1	Brewery	Personal relations are very important.	-
2	Bakery	Important; knows central contact persons for over 10 years.	Problem-solving is easier, contact persons and sales reps remind the entrepreneur if she forgets to order something she usually does and give advice in problems.
3	Book shop	Long-term interfirm relations important, also important to know sales reps personally.	Interfirm level: the more one orders from one supplier, the better the conditions and the smaller the postages (important cost factor) become. Interpersonal level: when one knows the sales reps, it is easier to get better conditions (typical in the industry).
5	IT trade	Long-term personal relation important with software suppliers; with large hardware supplier they do not matter (orders placed via Internet).	Can rely on suppliers having the needed qualities (flexibility, punctuality, reliability and suitable payment terms).
7	Software design	No important personal component, except for one supplier who is known from a social context.	Long-term relations are beneficial due to trust and ‘uncomplicated dealing’.
8	Engineering service	Important.	Know-how suppliers: The firm knows what it gets from the suppliers.
West Germany			
9	Eco-bakery	-	Easier problem-solving, calculability, it is easier to get discounts from a regular supplier.
11	Pet shop	Both personal and long-term relations seem important; there is even social contact with some suppliers	Wholesaler: the entrepreneur knows the contact person very well. The main advantage of this close relationship is industry information.
15	Harbour service	-	Fixed prices and the possibility to receive bonuses.
16	Electronic installation	Both personal and long-term relations are important.	When the contact person knows the firm, s/he can bundle several orders into a large one for the invoice and thus offer a better price. Also the regular contact person knows that the firm places orders frequently and this also affects the price positively. S/he also knows what items the firm usually orders and can thus take over some of the work by looking up all relevant items when knowing for what purpose these are needed.

Table 15: Criteria for choosing / staying with the current suppliers

#	Firm	Criteria for choosing suppliers
East Germany		
1	Brewery	Although there are good West German suppliers, the interviewee prefers East German ones because they are less complicated, keep their promises, help and improvise, while West Germans are less flexible and service-oriented and there has been more problems with West German suppliers.
2	Bakery	Being local, which is important because it is easy to drive to the supplier to pick up things one has forgotten to order. Machinery is chosen based on having had it introduced at a trade fair.
3	Book shop	The wholesaler was chosen because it is medium-sized (should not be too powerful), carries the needed books and does not require to purchase expensive software to administer Internet orders. The entrepreneur also made enquiries at other book shops and was recommended to contact this supplier. Publishers appear to have been chosen because of literary relevance.
5	IT trade	Information about (new) suppliers is found from trade journals and the Internet. Geographical vicinity is an irrelevant criterion, as products are anyway sent by post or via the Internet. However, non-EU suppliers would not be considered due to higher costs. Price is also unimportant because the entrepreneur thinks haggling costs more time than saves money. The most important quality of suppliers is that everything runs in an 'uncomplicated' manner. This includes e.g. flexibility, punctuality, reliability and suitable payment terms. These apply on both software and hardware suppliers.
7	Software design	Geographical vicinity, which makes relations easy and it is also important that the 'money stays in the region'. Technical competence and price are also important. Usually three offers are acquired before placing an order. One supplier was known from a social context.
8	Engineering service	Equipment suppliers: the firm tries to get to know the whole range of available products and prefers to try different suppliers. Price is an important criterion. R&D suppliers: Competence, the one who can do the job gets it. Being local is important, so the firm knows what it gets. Moreover, there are enough suitable suppliers in Dresden – why should the firm go any further to find some?
West Germany		
9	Eco-bakery	Geographical vicinity is important due to the ecological ideology: the entrepreneur wants to keep transport routes as short as possible due to ecological consequences. It is also easier to maintain regional supplier relations due to easier communication and quicker deliveries. However, these arguments are secondary to the ecological one. The current suppliers have been chosen based either on personal knowledge (entrepreneur knew the firm from the time he worked as an apprentice in another eco-bakery) or recommendations from colleagues in the same industry.
10	Book mail-order	Wholesaler: geographical vicinity, which allows for the quickest possible deliveries. Publishers: the most important criterion is that they carry the relevant books. With (small) publishers with which the firm has not worked before it requests sample books to be tested for marketability at a trade fair. If they appear to be good, the firm negotiates conditions (= discount rates) and takes the books into its programme.
11	Pet shop	The most important criterion is the product itself, followed by price, reliability, honesty and personal knowledge. Moreover, e.g. the wholesaler has been known for many years and has been supplying the firm ever since the current entrepreneur's mother was running the business in the 1970s.
13	Image consultancy	The only supplier was recommended by advertising agencies. Moreover, it is both expensive and offers the best quality that the entrepreneur has seen so far.
15	Harbour service	The current suppliers have been found by experience. The most important criteria are price, quality and service (esp. quickness of delivery). If the supplier does not meet these criteria, it is replaced with another one as has happened in the past.
16	Electronic installation	The current suppliers contacted the firm after it had been added to the trade register. Geographical vicinity is an important criterion because it enables quick deliveries, which are essential as the firm maintains low amounts of materials in store. Moreover, the products have regional features. Another important selection criterion is the assortment of goods offered by the firm, which needs to be large. These criteria are much more important than price.

Table 16: Regulation of supplier relationships

#	Firm	Forms of regulation
East Germany		
1	Brewery	Except for malt suppliers, with whom an annual contract typical in the industry is made, the regulation practices are informal. It is common practice for suppliers to check the customer's solvency through a credit agency.
2	Bakery	No written contracts. Legal action would be possible based on delivery invoices signed by the recipient.
3	Book shop	Wholesaler: annual non-exclusive framework contract. No information on publishers.
7	Software design	Supplier submits a written offer which is accepted by the firm.
8	Engineering service	Equipment suppliers: written regulation based on an offer from the supplier. Know-how suppliers: written contract the content of which the entrepreneur does not know. It is solely for administration e.g. at the university. The actual agreement is made once informally and it holds.
West Germany		
9	Eco-bakery	No written contracts, everything is based on oral agreements. Similar delivery notes as in customer relations (with legal force, must be signed because of VAT regulations) are used also in this context.
11	Pet shop	The firm has a written contract with the cooperative society. The cooperative society provides a guarantee for the suppliers by actually paying their bills and then billing the customer. This intermediary role was characterised as very important because few suppliers would nowadays supply companies without such a safeguard due to payment problems in the past. The cooperative can sanction members (both suppliers and customers) effectively by excluding them. Although there are other similar societies, these are very well networked and the information about firms that do not pay their bills spreads quickly. Therefore the firm is unlikely to be accepted to a cooperative once it has been excluded from one.
13	Image consultancy	Oral agreements. Apart from receipts there are no written documents involved. The entrepreneur places an order, controls quality, then negotiates the price and pays. Written offers etc. are unnecessary especially in the long run. Oral regulation saves both parties time and also money for the entrepreneur, as she is not charged for the time used to write an offer. The entrepreneur also control the price by getting offers from competitors from time to time.
15	Harbour service	Usually written contracts, but in face-to-face meetings also oral agreements can be made. Also smaller agreements can be made orally. The most important criterion in oral agreements is that the firm can rely on the supplier to do the job properly and to keep the orally agreed price (not send a bill with a higher sum).
16	Electronic installation	No written documents involved except for the delivery note (see case #9 for more details).

Table 17: Payment terms with suppliers

#	Firm	Payment terms
East Germany		
2	Bakery	Direct debit authorisation, basically guarantees that the supplier gets its money but is not solely a safeguard but it is also convenient for the firm.
3	Book shop	By invoice with both the wholesaler and the publishers.
5	IT trade	Usually by direct debit. However, arranging payment terms is not a problem because the long-term suppliers (all of them) know that they will get their money.
West Germany		
9	Eco-bakery	Direct debit.
10	Book mail-order	By invoice which needs to be paid periodically.
11	Pet shop	Wholesaler: direct debit. Other suppliers: via the cooperative society.
13	Image consultancy	Cash on delivery.

Table 18: What happens in case of problems with suppliers?

#	Firm	What happens in case of payment or other problems?
East Germany		
7	Software design	If and experiences with a particular supplier have been positive and the offered price is competitive, the supplier will be contacted again. If not, then not.
West Germany		
11	Pet shop	The cooperative society provides a forum to deal with problems with the respective suppliers.
15	Harbour service	The relationship gets terminated and the supplier is replaced with another one.

Table 19: Other co-operations

#	Firm	Characteristics of co-operations
East Germany		
1	Brewery	One co-operation with a regional micro brewery whose beers are bottled and sometimes even brewed here.
2	Bakery	No co-operations.
3	Book shop	Three informal co-operations: 1) advice and experience exchange with a book shop in the region; 2) two local theatres let the entrepreneur to sell books during intervals; 3) artists give exhibitions at the shop.
4	IT trade & own software	25 distributors all over Germany, mostly independent IT businesses with a non-exclusive agreement with the firm. Distributors are largely responsible for delivering hardware to customers, while the mother company concentrates on software. They can also handle small projects by themselves. Larger projects are handled either in mixed teams or by the mother company alone, depending on perceived competence of the distributor. Furthermore, the firm cooperates with local universities in terms of internships, which are an important recruitment forum.
5	IT trade	Informal information exchange with other companies.
6	Production consultancy	No co-operations.
7	Software design	Co-operations with small businesses in the same industry in Germany, yet not direct competitors. Scope of co-operations is directed at European and domestic customers (not important Asian ones).
8	Engineering service	No co-operations.
West Germany		
9	Eco-bakery	Exchange of information and experiences as well as joint training for the staff. Co-operation takes place in meetings of a business association, in private meetings or on the phone. Sometimes several months may pass without much contact, while at other times there might be contact every week. However, contacts are maintained on a regular basis and are informal, yet always business-related, in character.
10	Book mail-order	No co-operations.
11	Pet shop	Regular co-operations with suppliers and colleagues in the same industry. Two or three entrepreneur couples meet once or twice a month to exchange information and experiences informally. The firm used to participate in an organised information and experience exchange group for six years. The group was facilitated by a consultant who received a (relatively high) fee for the service. The group met on weekends every now and then and information and experiences were shared very openly, including the relevant financial figures etc. The firm quit the group because the fee was high and there was not enough new information, as many firms were 'taking rather than giving' in the information exchange.
12	Auditing service	The main co-operation comes with the international auditors' network. There are regional (German-speaking area) meetings once a year and an international meeting biannually. Country presidents (the interviewee for the German speaking area, knows the respective members very well) coordinate co-operations between members in one country. One aspect of this is the allocation of customers, e.g. in cases where a multinational is a customer of the network, which member(s) receives the business of the national subsidiary.
13	Image consultancy	The entrepreneur maintains a file of approx 75 co-operation partners, who range from freelance designers to students and housewives. They are hired on a case-by-case basis as freelancers e.g. to assist in developing designs or evaluating them. About 20 would be difficult to replace, while two or three designers are irreplaceable.
14	Internet service	Cooperates with friends who are mostly freelancers or small-business owners. These co-operations include services such as graphics design or programming. They also feature exchange of experiences and information.
15	Harbour service	Cooperates with other similar companies. The idea is to provide local service to the customer also in other German cities. These co-operations are needed 'every now and then'. This type of cooperation is typical in the industry.
16	Electronic installation	Cooperates 1) with 10 competitors in information and support exchange and 2) with other local craftsmen who are not direct competitors by providing recommendations to customers reciprocally.

Table 20: Importance and benefits of co-operations

#	Firm	Importance	Benefits
East Germany			
3	Book shop	Especially theatres are important co-operation partners.	Theatres: the sales in one evening at a theatre may exceed the sales in the shop in a whole day. Also the PR value is high. Artists: they get more audience and the shop more customers
5	IT trade	Unimportant.	-
7	Software design	Very important.	'Combining sizes' and 'bringing each other to business', i.e. co-operations enable larger projects and thus competition with large firms that dominate the market. Also gaining industry information is very important.
West Germany			
9	Eco-bakery	Very important, the entrepreneur regrets he doesn't have enough time for them.	-
11	Pet shop	Important.	Information.
12	Auditing service	Very important.	Customer acquisition.
13	Image consultancy	Absolutely vital, the entrepreneur cannot do a project on her own.	The cooperation partners complement the know-how of the entrepreneur and enable successful projects in the first place.
14	Internet service	Important.	Acquisition of complementary competencies, learning effects from the exchange of information and experiences.
15	Harbour service	Important.	Co-operations are needed in order to provide the customers with a comprehensive service efficiently.
16	Electronic installation	Co-operations with craftsmen who are not direct competitors are of relatively low importance.	In co-operations with craftsmen who are not direct competitors, the main benefit is customer acquisition.

Table 21: Emergence of co-operations

#	Firm	Emergence of co-operations
East Germany		
1	Brewery	The co-operation is based on the entrepreneur used to having been the co-owner of the partner firm.
3	Book shop	Book shop: the entrepreneur used to work there and learn the book business. Theatres: the entrepreneur knew the contact persons from other contexts ('old contacts').
4	IT trade & own software	The firm chooses cooperation partners (distributors) based on criteria such as size and experience. The network of distributors used to be larger, but some relations were called off because the firms were too small to handle projects properly. Some partners have been found coincidentally, some have applied directly to the firm.
7	Software design	Own networks as well as government initiated networks (unclear which ones) are the main source of partners. Moreover, the firm knows most other actors in the industry and the interviewee knows quite well with whom he can co-operate on a personal basis. Inter-personal 'chemistry', short geographical distance (more important than in customer relations) as well as suitable service spectrum (not too many overlaps) are the most important selection criteria.
West Germany		
9	Eco-bakery	Mostly in a business-association context.
11	Pet shop	The formal information and experience exchange group was facilitated by an external consultant.
13	Image consultancy	One third of the co-operation partners are friends of the entrepreneur. The rest she has met in different contexts (university, on the street etc.) – when she meets somebody who she thinks is interesting, she takes this person into her file.
14	Internet service	Co-operation partners are friends. The entrepreneur prefers cooperating with friends because then the people know each other, can trust each other and give 'friendly' prices.
15	Harbour service	Besides using the company and his personal networks, the MD can select cooperation partners from the members of the business association specialised in this industry. Sometimes association contacts or existing cooperation partners also provide recommendations. One must be careful in choosing these partners, because one must be able to rely on the partner not to 'steal the customer'.
16	Electronic installation	The information and support exchange co-operations with competitors have emerged as the respective people have got to know each other, mostly in a guild (Chamber of Crafts) context. The selection criteria for the co-operations include that the partner must be engaged in similar activities and that the personal chemistry works. Also trust (keeping confidence) is important, and keeping it determines the continuation of the cooperation. The co-operations with craftsmen who are not direct competitors have emerged spontaneously when one party has provided a recommendation to a customer. Then the recommendation system becomes reciprocal and continues over time.

Table 22: Regulation of co-operations

#	Firm	Regulation	What happens in case of problems
East Germany			
1	Brewery	Informal.	-
3	Book shop	Informal. The entrepreneur thinks that contracts do not pay as they are too expensive. Mutual help is more important.	-
4	IT trade & own software	Detailed written contract, which specifies liabilities of both parties (distributors have franchise-like duties).	If the problem cannot be solved informally, the firm ends the cooperation. So far there has not been a law suit.
7	Software design	Information exchange is regulated informally; joint projects are regulated formally because also agreements with customers are in writing. However, unlike in contracts with customers there are no sanction mechanisms here.	-
West Germany			
9	Eco-bakery	Informal.	-
11	Pet shop	The organised group was regulated with a written contract. Other co-operations are regulated informally or not at all.	If anybody misused the information shared in the organised group, s/he would face considerable monetary sanctions as arranged for in the contract.
12	Auditing service	Membership in the network is regulated with a written contract that defines minimum standards. The actual co-operations between members are informal. Despite minimum standards there is no consistent quality between members. Thus the interviewee recommends only firms that he knows personally.	-
13	Image consultancy	'Definitely' in writing. The contract is similar as in customer relations. Written regulation is better for both parties as it makes the relationship more business-like and distinguishes the roles as cooperation partners and friends.	-
14	Internet service	-	One cooperation has failed because of lacking personal chemistry and the partner not being able to distinguish between private and business sphere.
15	Harbour service	Written contract. It is used to confirm the price and it is also necessary because of a worldwide applicable industry-specific regulation.	-
16	Electronic installation	Purely informal.	If a cooperation partner should fail to do what was agreed on, the entrepreneur would terminate the cooperation. This would damage the reputation of the partner, for there is quite a lot of gossip in the informal social networks of relevant local firms.

Table 23: Third parties involved in the business

#	Firm	Third parties involved in the business
East Germany		
1	Brewery	Solicitor and tax accountant. During the takeover phase substantial support from the local bank (advice and financing) and the regional business support agency. Also a West German consultant was involved in planning the new production facilities.
2	Bakery	Tax accountant, too much change going on in tax laws and regulations for the entrepreneur to keep track.
3	Book shop	Friends and family were important during the start-up in financing and renovating the shop facilities. The same people still help out, e.g. if the entrepreneur needs someone to keep the shop open when he has to be somewhere else. The availability of friends, family and old contacts was an important factor why the firm was started in Dresden and nowhere else. Moreover, the director of the local new venture support programme helped with contacts and information regarding how to run a business.
5	IT trade	A tax adviser takes care of the related paperwork. Everything with this party runs smoothly. Occasionally, also solicitors are used to take care of the few law suits. Other than that, there are no third parties involved in the business. The firm has never used a consultant or a financial service provider, although it receives offers constantly. The entrepreneur feels that engaging such actors would only cause problems, because they are not really interested in small customers. They are rather dishonest and just want to make some quick money.
7	Software design	The firm is informally engaged in publicly supported networks (unclear which ones) where it gains support and information without paying for it.
8	Engineering service	As the firm 'lives indirectly from support funds', the business support agencies are important third parties. There are no other means for the firm's customers to fund innovations. Thus if there were not any support agencies, the firm would be out of business. Further, own customers are an important source of information and also support.
West Germany		
9	Eco-bakery	A regular solicitor takes care of the few non-payment cases.
10	Book mail-order	A legal and tax accountancy services firm, which is the first source of assistance in business problems of any kind (e.g. tax issues, payment problems).
11	Pet shop	In general business problems the entrepreneur would turn to her regular consultant, her tax accountant, her bank or the wholesaler supplier. The firm has been working with the same consultant for 15 years on a regular basis. The business development is reviewed with him monthly.
12	Auditing service	No third parties.
13	Image consultancy	1) fiancée is also an entrepreneur and has given information and support; 2) aunt and uncle helped by giving feedback on designs; 3) acquainted solicitor helped to formulate the standard contract; 4) university lecturer helped with formalities and provided related information; 5) consultant at the Chamber of Commerce and Industry helped find the right legal form for the business; 6) an insurance agent helped in finding suitable insurances for the business.
14	Internet service	Tax accountant, a business support agency and the university to which the entrepreneur is connected as part of the support programme. The support agency was described as very good especially for innovative firms. University provides, besides a stable income, networking opportunities as well as further training in form of business seminars.
15	Harbour service	No third parties.
16	Electronic installation	The entrepreneur's parents gave support and advice as he took over the firm. The parents are also entrepreneurs. Previously a friend of the entrepreneur's used to do accounting for the firm, but nowadays this is taken care of by a professional tax accountant.

Table 24: How have the third parties been chosen?

#	Firm	How have the third parties been chosen?
East Germany		
2	Bakery	'Inherited' – although the owner of the tax accounting firm has changed a few times, the same firm has been used since the current entrepreneur's parents were running the business.
3	Book shop	All except for the director of the local support programme were described as friends, family and old contacts, i.e. were known already.
West Germany		
9	Eco-bakery	The solicitor was known previously, presumably from a social context.
10	Book mail-order	The entrepreneur could not name any particular reason for choosing this firm. As the contact person changes from time to time, a personal bond can be excluded.
11	Pet shop	The consultant was recommended by colleagues in the same industry. Moreover, he had a good reputation because of having worked for a well-known large consulting firm. The relationship with the bank emerged as the entrepreneur got dissatisfied with her previous bank due to increased bureaucracy. She had a private account in the current one and as she had no negative experiences there, she also moved her business account to this bank.
13	Image consultancy	Except for the insurance agent and the Chamber consultant, who were chosen because of their professional positions, all of the third parties were either family or previously known from a social context.
14	Internet service	The entrepreneur applied for a stipend in the business support agency programme, received it and was sent to the university as part of the programme.
16	Electronic installation	Third parties are family and friends.

Table 25a: Business associations and Chambers of Commerce and Crafts – East German cases

#	Firm	Business associations and Chambers in which member	General information/impression and benefits of membership
1	Brewery	Association of Saxon brewers	Association provides information on market and industry developments. Membership passive.
2	Bakery	Association of "Christstollen" producers, Chamber of Crafts	Association protects the recipe and brand of "Christstollen" even by lawsuits if necessary and was rated as very important. Chamber controls the apprenticeship system and provides legal and general help in business problems. It was rated positively.
3	Book shop	Association of German book shops	Provides further education (entrepreneur does not have time to participate); information on industry developments, laws and regulations; personal consultancy.
4	IT trade & own software	-	Interviewee thinks business associations are 'medieval', 'over-bureaucratised' and even 'dispensable'. Better ones are needed to fulfil the important function of information exchange that is presently facilitated inadequately.
5	IT trade	Chamber of Commerce and Industry, local software-related association	Memberships are completely unimportant. The only thing the firm receives from the Chamber is the invoice for the annual membership fee. The entrepreneur added, however, that the Chamber also has useful services for SMEs – his firm just does not need them. He would rather have the Chamber organise networking possibilities for small firms.
6	Production consultancy	Member in several associations; manager of the local branch of a business association	In general, the main benefit are networking possibilities. In the entrepreneur's own business association branch the members meet regularly and also socialise informally e.g. by going for a beer together.
7	Software design	Association specific to this type of software industry	Benefits include information, 'being present' and gaining informal contacts to firms which tackle with similar problems. These are important sources of information and support.
8	Engineering service	Chamber of Commerce and Industry, Association of Innovative Enterprises	Benefits include information and a chance to recruit customers. The association also functions as a communication interface to relevant policy makers.

Table 25b: Business associations and Chambers of Commerce and Crafts – West German cases

#	Firm	Business associations and Chambers in which member	General information/impression and benefits of membership
9	Eco-bakery	Federal Association of Ecological Bakeries, Chamber of Crafts	The association has approx 20 members who meet semi-annually for the purpose of information and experience exchange. Association is informal and there are no specific rules to which the members should adhere. The current members choose new ones, not everybody can become a member. The Chamber (or in fact the guild, Innung) provides advantages such as easier organisation of apprenticeships, information, assistance in formal questions by guild solicitors (e.g. law and regulations, esp. labour related).
10	Book mail-order	Two business associations, Chamber of Commerce and Industry	Association of German book shops: the entrepreneur thinks she does not get much out of the membership. Some industry information, but this is available in newspapers too. The most important benefits are showing presence and getting a membership number, which is used as a customer number by many publishers. Association of retail trade: legal information, which is however needed very seldom. Both associations organise meetings but the entrepreneur does not go there. She in fact asks herself why she is a member in the first place. Also in the Chamber she is a passive member and the Chamber has done nothing for the firm so far. The information that the Chamber could provide is needed very seldom.
11	Pet shop	Business association of pet shops and suppliers of pet-related products	The association is active in the whole of Germany, yet most contact is with the regional branch involving about 30 firms. Both pet shops and suppliers have own subgroups within the association. Benefits include information exchange with other members, information about new laws, legal assistance by solicitors and even some political influence ('trying to keep the most stupid laws from coming into being').
13	Image consultancy	Chamber of Commerce and Industry	Helped in finding the right legal form for the business. The contact person was very friendly, open and helpful. The entrepreneur has a very good impression of the Chamber.
14	Internet service	Chamber of Commerce and Industry, young entrepreneurs' and managers' association	The support received from the Chamber was disappointing. It only provided the standard materials, which are unsuitable for innovative start-ups. The local subsidiary of the association provides an important networking channel to other young (up to 40 years) entrepreneurs and managers.
15	Harbour service	Chamber of Commerce and Industry, German packing firms' association	Experiences with the Chamber have been positive and the people have been helpful. The firm gets information about potential customers as well as participates in the apprenticeship system controlled by the Chamber. Association sets informal regulations to which the members can adhere or not. The regulations have been accepted by insurance companies and thus a violation might lead to insurance problems. The most important functions for the association are however to provide information about member companies (see co-operations) and to act as a forum for establishing new contacts.
16	Electronic installation	Chamber of Crafts	There is regular contact with the guild level of the Chamber, as it administers the apprentice system. The Chamber consultants also helped him in the take-over process and one of them represented the firm in court in a lay-off case. The latter person was described as helpful, but otherwise the Chamber does not do enough to justify the high membership fee. The entrepreneur has also had a bad experience with the Chamber as he was taking his master craftsman exams (see write-up, p. 66). However, the entrepreneur recognises an important function for the Chamber in controlling entry to crafts professions. Without this function the whole sector would be worse off.

Table 26: Intrafirm relations – Partners

#	Firm	Partners and their responsibilities
East Germany		
1	Brewery	No partners.
2	Bakery	No partners.
3	Book shop	No partners.
4	IT trade & own software	Three partners.
5	IT trade	Three partners, of which two in Dresden and one in Munich. The latter is not involved in operative management and decisions-making. The two other partners share responsibilities based on concentration on certain technologies/products as well as managerial functions.
6	Production consultancy	No partners.
7	Software design	Four partners.
8	Engineering service	Two partners, both of them acquire and plan projects.
West Germany		
9	Eco-bakery	No partners.
10	Book mail-order	No partners.
11	Pet shop	No partners.
12	Auditing service	Three active partners that have joined the firm because of its excellent reputation established by the original founder. Responsibilities between partners are overlapping, but in principle one partner is responsible for certain customers, while another one backs him up by staying pretty well informed about what is going on with a particular customer so that he can jump in if necessary. Strategic decisions are made unanimously by the three partners.
13	Image consultancy	No partners.
14	Internet service	Two partners, who have known each other for a long time. The interviewee is responsible for sales and marketing, while the partner takes care of the technical side. Finances are planned together.
15	Harbour service	The partners are other companies and do not engage in operational management, although the partner with the largest share (60 %) provides a 'shadow' MD who participates in major strategic decisions and liases with the three partner companies.
16	Electronic installation	No partners.

Table 27: Intrafirm relations – Employees

#	Firm	Employees	Control mechanisms ¹	Decision-making
East Germany				
1	Brewery	20 employees	Working-time control system.	Small technical decisions delegated, all larger ones need to be made by or in agreement with the owner-manager.
2	Bakery	12 employees, two apprentices	-	Important decisions made by the entrepreneur with husband and sister (also involved in business).
3	Book shop	Owner-manager, part time student	-	Owner-manager; student only helps out in evening sales at theatres.
4	IT trade & own software	25 employees	-	Project managers are allowed to make small (technical) arrangements informally with customers.
5	IT trade	10 employees	Performance statistics (recording e.g. sales volume per employee). There is a bonus system in addition to fixed monthly salary.	Decisions related to individual customer accounts can be made by responsible employees, except for price agreements – these and all general decisions are made by the partners with the company accountant.
6	Production consultancy	Owner-manager, four freelancers	Employment on a case-by-case basis.	Owner-manager makes all decisions.
7	Software design	15 employees, incl. managers	Working-time control, semi-formal regulations as to who is allowed to represent the firm in certain contexts. Otherwise little control.	Managers are involved in a consulting role, but owner-manager team makes the important business decisions. Technical decisions are delegated to engineers.
8	Engineering service	15 employees; owner-managers acquire and plan projects, employees implement them	Monthly project discussions with the respective employees. Performance oriented remuneration (20 % of salary variable), controversial response from employees (see write-up, p. 33).	Owner-managers make decisions, although employees may consult. Also long-term business partners may be involved in a consulting role. Decisions related to individual projects are delegated to a large extent to the respective employees.
West Germany				
9	Eco-bakery	18 employees	-	-
10	Book mail-order	Five employees, each has own tasks or specialisation (e.g. book-keeping, an area of medicine)	No formal control. In the small premises one sees what other people are doing anyway.	All employees participate in decision-making – since they all work in small premises it would be impossible to keep secrets. Decisions related to the employee's own tasks/specialisation are taken by him/her. Bigger decisions need to be agreed with the owner-manager.
11	Pet shop	Ten employees, incl. owner-manager and her husband	No formal control system – family business so one can rely on own family members. Entrepreneur could imagine introducing working-time control if she had more than one shop.	Important decisions are taken by the entrepreneur with her husband. One employee has decision-making power in a few departments in the shop. His decisions are controlled by the entrepreneur (she has more experience) – she thinks about 90 % of the decisions are brought to her notice.
12	Auditing service	Three partners and three clerical staff	-	Decisions regarding individual customers are made by the responsible partner, while strategic decisions are made unanimously by all partners.
13	Image consultancy	Owner-manager only	-	-
14	Internet service	Two partners	-	-
15	Harbour service	20 employees: two MDs, foremen, office clerks, industrial workers	Working-time control, a control sheet for packing operations (data is inputted into an accounting program and the results are used to adjust prices to costs).	Most operational decisions are made by the 'real' MD. General decisions involving moderate sums are made by the two MDs together, while bigger decisions are made in agreement with the partner companies.
16	Electronic installation	4 fulltime staff, 4 apprentices	Employees fill out a measurement form indicating time and materials used for the job. The entrepreneur also visits the employees at work sites – junior staff more often.	Owner-manager makes all decisions, except for minor ones 'in the field'.
- 1 Almost all firms reported having an informal working atmosphere / organisational culture.				

Table 28a: Opinion on authorities and regulations – East German cases

#	Firm	Which authorities has dealt with	Opinion
1	Brewery	Support agency, local administration, inland revenue	Too much bureaucracy and too little communication between different authorities.
2	Bakery	City administration, hygiene authority	Authorities have become harder since 1990 – they sanction more easily (entrepreneur thinks the state needs money), have become less transparent and change constantly. In GDR authorities were more advice than sanction-oriented. However, in sum there has been few problems. The contact persons (clerical staff) are the same as in the GDR era.
3	Book shop	-	Has had little to do with authorities, basically only at start-up which went smoothly, quickly and co-operatively. Entrepreneur described everything having been 'joyously simple'. He thinks that there are so few start-ups that authorities handle these with care.
4	IT trade & own software	-	Authorities are 'a big restraint'; East Germany has become over-bureaucratized since the unification.
5	IT trade	Has had to deal with hardly any authorities.	The entrepreneur seemed distressed about the irresponsible waste of public resources by authorities. He had heard about this from informal sources.
6	Production consultancy	-	Authorities are 'the only large business in East Germany'. They are over-bureaucratized and treat small firms badly and unfairly, degrade them and even lie to them. Authorities do not think at citizens at all and have forgotten about their supposed role as community servants. The entrepreneur has had own bad experiences with authorities.
7	Software design	Has in general little to do with authorities.	Authorities 'take their time', seem unwilling but also surprise positively sometimes. Interviewee thinks authorities treat small firms fairly, although there seems to be little political interest in and support to SMEs.
8	Engineering service	Mainly business support institutions.	Authorities are over-bureaucratized and just create work for themselves. This is manifest in the excessive amounts of paperwork and the long time required for each support application. The entrepreneur fears that EU regulations will make the situation even worse.

Table 28b: Opinion on authorities and regulations –West German cases

#	Firm	Which authorities has dealt with	Opinion
9	Eco-bakery	Many, e.g. concerning safety and hygiene	In general the entrepreneur gets along with authorities pretty well. However, he dislikes the ‘pettiness’ of some regulations (see next table for examples), because they cost the firm time and money that could be used productively in the business instead.
10	Book mail-order	Customs, inland revenue	Both said authorities are difficult to co-operate with: each time the entrepreneur calls for an enquiry there is nobody available who would know about the subject, the opening hours are too short, for every little thing there is a form to be filled out or an application to be written. Biggest problems in Germany are non-transparent laws and excessive bureaucracy. E.g. tax laws are so complex that the entrepreneur could not cope with them without a solicitor/tax accountant. Excessive red tape hinders and slows down daily work as every little detail needs to be in writing.
11	Pet shop	Many, e.g. veterinary and food product authorities	Especially the sale of pets produces a lot of paperwork, of which only 30 % is reasonable. The entrepreneur thinks that over-bureaucratisation of authorities is a real problem. She would like to reduce the amount of red tape and to improve the employment laws to be more entrepreneur-friendly. If she had to downsize now, she would have to lay people off based on length of service rather than performance.
12	Auditing service	Inland revenue, both on own and on customers’ behalf	Inland revenue is fair in general and there has been few problems, but it also depends on office and official in question. However, the inland revenue has become tougher since about ten years. The interviewee thinks this is due to the government needing more money and the officials having to look into the cases in more detail.
13	Image consultancy	Inland revenue	The only contact so far has been when the entrepreneur registered her business. This took only three minutes and went smoothly. Also the service was friendly.
14	Internet service	Construction authority (probably also others)	Many authorities seem to lack a grip of reality – they should be more pragmatic. Service at authorities depends on the official: some of them try to help, but many just do their routine tasks and show little interest. The entrepreneur has both good and bad experiences. She wishes that there were one official instance for potential entrepreneurs, which would help out with all related formalities and contacts.
15	Harbour service	Business support authority at start-up; no other experience	The firm received support funds and the respective authority was supportive and helpful. However, most of this process was handled through the house bank, which was also described as helpful.
16	Electronic installation	Inland revenue, Employer’s Liability Insurance (ELI) Association	Inland revenue: experiences have been good and the firm has been treated fairly. It is ‘law and regulation’ and one cannot blame individual officials. However, everybody is not treated equally, but treatment depends on the official. Over-bureaucratisation is a problem (see examples in write-up, p. 66). ELI: controls job safety and makes occasional calls at companies to make sure they comply with the regulations (one in the past 5 years at this firm). The inspection experience was positive. ELI also offers pension payments in case of occupational accidents. When someone needs these, ELI goes to court and does everything to avoid paying. The entrepreneur thinks it is a pure administrative machine. He sees the need for somebody to control job safety, but cannot appreciate the bureaucracy involved and the high payments for firms that are associated with it.

Table 29: Critical incidents related to authorities and regulations

#	Firm	Critical incidents
East Germany		
1	Brewery	When building new production hall, the firm had contacted only one authority but (as found out later) should have contacted several ones, one for each different purpose. It seemed that the company would be sanctioned because of a new regulation they did not know about when the building project commenced.
2	Bakery	A problem occurred when the firm used a sales trolley and did not comply strictly with the regulations determining the number of hours the firm is allowed to sell. The firm was sued, had to hire a solicitor and ended up paying a rather hefty fine.
West Germany		
9	Eco-bakery	Once the firm bought machinery worth of thousands of euros and eventually got the VAT back as it was supposed to. However, four years later an official came with the receipt claiming that the company's name was missing on it and demanded the VAT return to be paid back.
11	Pet shop	The last move to new facilities (2001) took two years to realise. The tenancy agreement with the property owner was finished and he had also agreed to renovate the building. Receiving the permission to move proved to be the obstacle. In this kind of cases the authorities need to consult the Chamber of Commerce and Industry, which would have wanted to keep the firm in the city centre (new facilities are in an industrial area further away) and also wanted to control the product range the firm is allowed to offer. The entrepreneur thinks that the people at the Chamber with whom she 'fought' actually lied to her. Initially, she conducted the process alone, but eventually the property owner, who is a well-known person in the city, interfered and together with the city authorities managed to get the permit issued. The entrepreneur blames both the age-old regulations as well as the staff at the Chamber for this delay, which cost the firm many customers and caused a difficult economic situation.
14	Internet service	The firm wanted to take over another small firm in order to facilitate growth. However, the bureaucracy of the construction officials slowed the process down. While the bureaucracy was still running and the firm stood to the rules, another firm ignored them and proceeded with the takeover. Thus it seems to the entrepreneur that one is better off ignoring some of the rules and sorting out the bureaucracy later, rather than sticking to the rules and letting it harm business development.

Table 30a: Perception of the domestic trust environment – General / business partners

#	Firm	General / business partners
East Germany		
1	Brewery	Customers and suppliers trustworthy due to experience accumulated over the years. Regional partners easier to trust, yet in general also West German firms are trusted. Negative experiences with end customers (pubs, restaurants) who accept gifts (e.g. beer tap) on the condition that they also buy the firm's beer. In cases cheating is discovered, the gifts are taken back.
3	Book shop	In the neighbourhood the trust environment is good. The shops located there complement rather than compete with each other. Even the book shops (each with different specialisation) send customers to each other. The entrepreneur said he needs to be careful with publishing houses: when the 'normal routine' gets disrupted everything becomes more complicated and requires several phone calls to sort out. He added that this does not mean he were mistrustful.
4	IT trade & own software	Does not trust solicitors much (only interested in getting the firm's money), but has relatively much trust in other entrepreneurs, whom the interviewee described as 'competent people'.
5	IT trade	The entrepreneur emphasised that knowing the business partner is the most important thing for trust.
6	Production consultancy	Trust between businesses is important – the main motive of the members in the business association the entrepreneur is the local manager of is to get networking possibilities. For this service they agree to pay a high membership fee. Biggest trust problem for East German firms is, however, the lack of public trust in East German products (i.e. lack of brands). This leads to price being only competition tool, which leads to low profit margins and low levels of own capital. The entrepreneur added that East German firms lack sufficient funds to create brands and public support of marketing is prohibited by the EU. All of this creates a vicious circle for East German small businesses making them vulnerable to market developments and leading many of them to ruin.
7	Software design	Local trust environment is alright.
8	Engineering service	East German entrepreneurs trust each other as 'like-minded companions of suffering' – expectations regarding the future are pessimistic and people think trusting each other is necessary for survival. The entrepreneur always starts by trusting in new business relations. He likes to trust people, even if his trust has been let down and has almost ruined the business. Nevertheless, he does not such incidents discourage him because he thinks he cannot do business without trust. The same principles apply also within the own organisation. An important quality of trust is fairness.
West Germany		
11	Pet shop	The trust environment is good, but people tend to trust each other too easily. The entrepreneur has had quite a few disappointments over the years and has become more wary about trusting.
12	Auditing service	One can trust people less and less these days (see two examples in the write-up, p. 49).
13	Image consultancy	The entrepreneur thinks she can trust her business partners to the extent that they do what has been agreed on. Although trust and common sense are important in business, sometimes control is better.
14	Internet service	People in the Rhineland area talk a lot and one has to know them for a longer time to know when they are being serious. Trusting people is also subject to how attractive the 'bait' is.
15	Harbour service	The local trust environment is excellent, which is especially manifest in good co-operation and willingness to help and look for solutions. This applies both to firms and other institutions. However, the object of trust is always the contact person, not the organisation as such.
16	Electronic installation	Trust is the foundation of customer relations. The entrepreneur does not work with people whom he does not trust. There is a very good trust base with present customers. The trust relation in inter-firm relations is with the contact person much more than with the organisation. In relations e.g. to the Chamber it does not matter really who the contact person is.

Table 30b: Perception of the domestic trust environment – Authorities and banks

#	Firm	Authorities	Banks
East Germany			
2	Bakery	Neutral opinion, sometimes too nitpicking (especially hygiene). When the entrepreneur has felt mistreated it has been due to regulations, not officials.	-
3	Book shop	Only good experiences with authorities and even good personal contacts to some of them. Communication is good and entrepreneur was surprised how well authorities cooperate.	Entrepreneur does not trust banks. Thinks that since the early 1990s euphoria banks lost much money and have become more critical and controlling. Also thinks big start-ups receive preferential treatment.
4	IT trade & own software	Little trust in authorities mainly due to over-bureaucratisation.	Trusts only with a detailed written contract.
5	IT trade	-	The firm has good experiences with its own bank. The entrepreneur has heard from other firms that large businesses receive preferential treatment and small firms must always provide 100 % collaterals.
6	Production consultancy	'Absolutely no trust at all' in authorities. Has had own bad experiences and has a very negative opinion on authorities in general.	The entrepreneur knows that many small firms are dissatisfied with banks. However, as he knows bank managers too he knows that they have to be careful after losing a lot of money in the early 1990s 'unification enthusiasm'. Thus all small businesses have a hard time getting a bank credit in the East.
7	Software design	Authorities generally treat small firms fairly.	Banks offer consulting and other services based on customer size and financial credibility and do not treat all firms equally.
8	Engineering service	Despite over-bureaucratisation, businesses are treated fairly. However, large firms receive preferential treatment in support institutes.	-
West Germany			
9	Eco-bakery	The entrepreneur thinks that authorities treat him fairly. However, he excludes taxes from the fairness principle, because he thinks they are unreasonable.	-
10	Book mail-order	Large businesses receive preferential treatment because of the larger volume. Negative general opinion due to excessive bureaucracy and opaqueness of regulations. The entrepreneur expressed a general dislike of formal contracts.	Large businesses pay less account management fees. The firm has no credits, but the entrepreneur estimated getting one would be difficult for a traditional small firm like hers. The credits are rather given to start-ups with fancy business plans and banks lose a lot of money when many of these fail.
11	Pet shop	The treatment by veterinary authorities varies according to the contact person, who however treats all firms the same. Moreover, the entrepreneur has once had to pay a civil servant years ago – otherwise she would have had to close her shop. This does not happen anymore because the risk of getting caught has risen.	-
12	Auditing service	Inland revenue is fair in general. However, authorities treat small firms worse than large ones and they have little interest in SMEs.	Also banks treat small firms worse than large ones.
13	Image consultancy	-	The entrepreneur would trust banks to be fair because the state controls them.
14	Internet service	-	The entrepreneur thinks banks are fair, but has no own experiences from bank credits.
16	Electronic installation	The entrepreneur trusts the services, but thinks there is too much bureaucracy and the fees e.g. at the Chamber are not proportionate to the service received.	Banks treat companies differently, depending on how one builds trust with the bank. The more one treats the bank as a partner the better the treatment. The entrepreneur thinks small firms get credits more easily than large ones due to the recent bankruptcies of large firms.

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